

2017

INVESTOR PERSPECTIVES

on Private Equity
and Venture
Capital in Brazil



Founded in 2000, ABVCAP is a non-profit organization that represents the private equity and venture capital industry and promotes the development of long-term investments. In its 17 years of existence, ABVCAP has helped to improve industry conditions, advance understanding about the industry and promote best practices that are aligned with international industry standards.



MINISTRY OF
EXTERNAL RELATIONS



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.

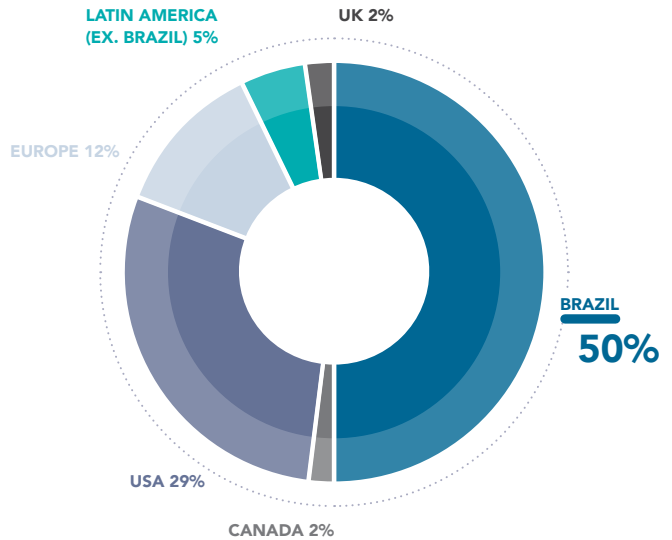


The program, initiated in 2009 through the first agreement signed between ABVCAP and Apex-Brazil, aims to attract foreign capital to the Brazilian private equity and venture capital industry, thus promoting investments in Brazilian companies and supporting the growth of entrepreneurial capital in the 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.

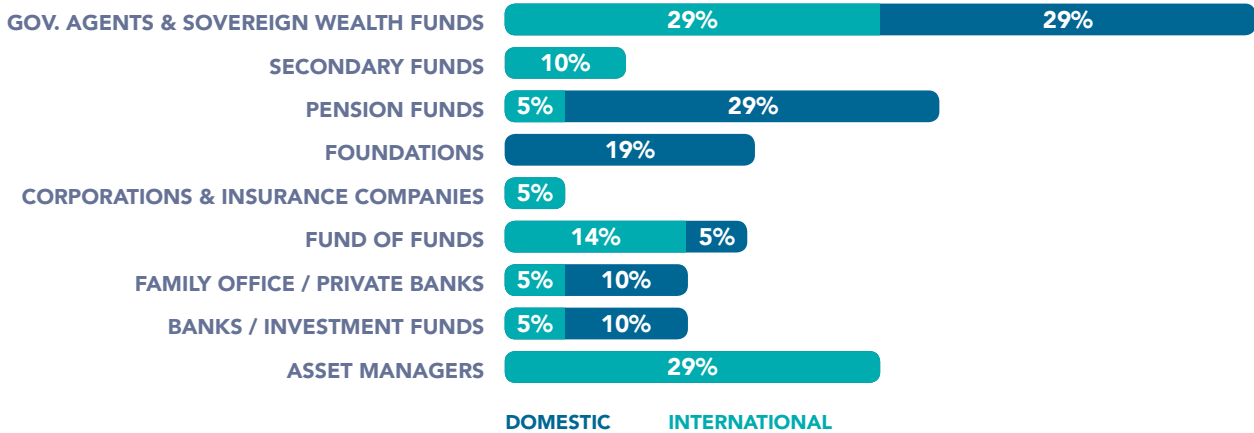
THE SURVEY

01 GEOGRAPHIC LOCATION

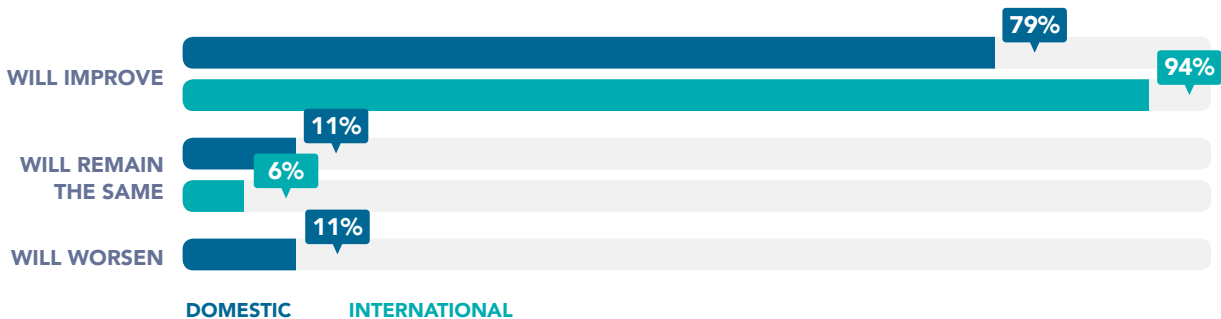
The survey collected data that reflects the perspectives of Brazilian and international investors on the challenges and opportunities of investing in Brazil's private equity and venture capital industry. Forty (40) private equity and venture capital investors participated in the survey. Of this total, twenty (20) are Brazilian investors and the other twenty (20) are international investors. Among the main groups that participated in the survey are government agents and SWFs, followed by pension funds and asset managers. In spite of Brazil's economic downturn and difficult political scenario, the vast majority of the investors interviewed in this survey, 94% of internationals and 70% of locals, are optimistic about the future and expect Brazil's PEVC market to improve in the near future.



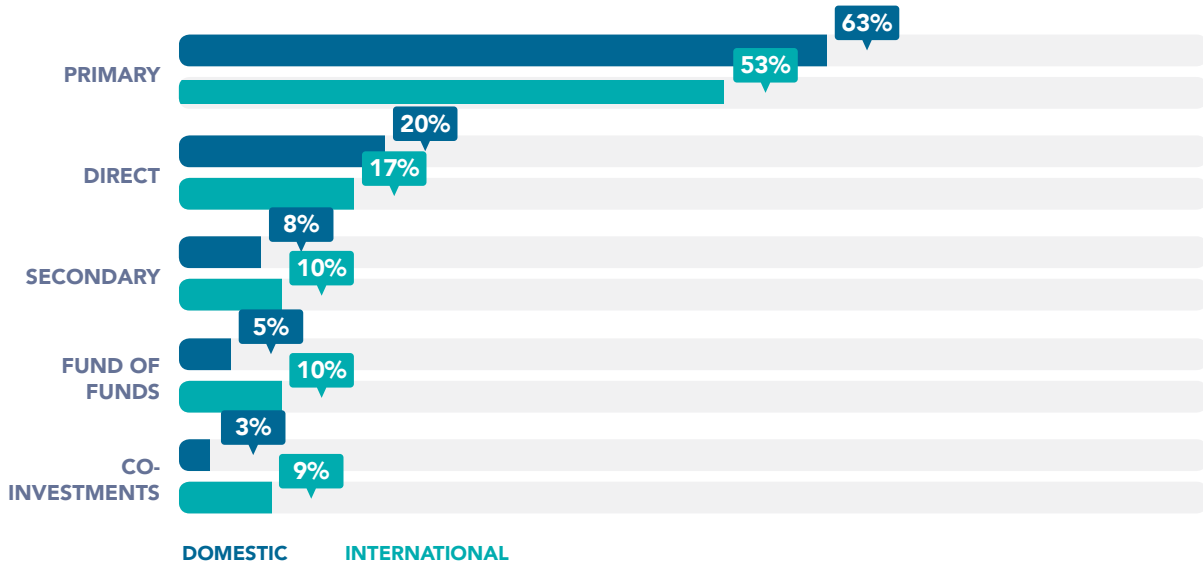
02 TYPE OF INSTITUTION



03 EXPECTATION FOR THE BRAZILIAN PE/VC MARKET FOR THE NEXT 3 TO 5 YEARS

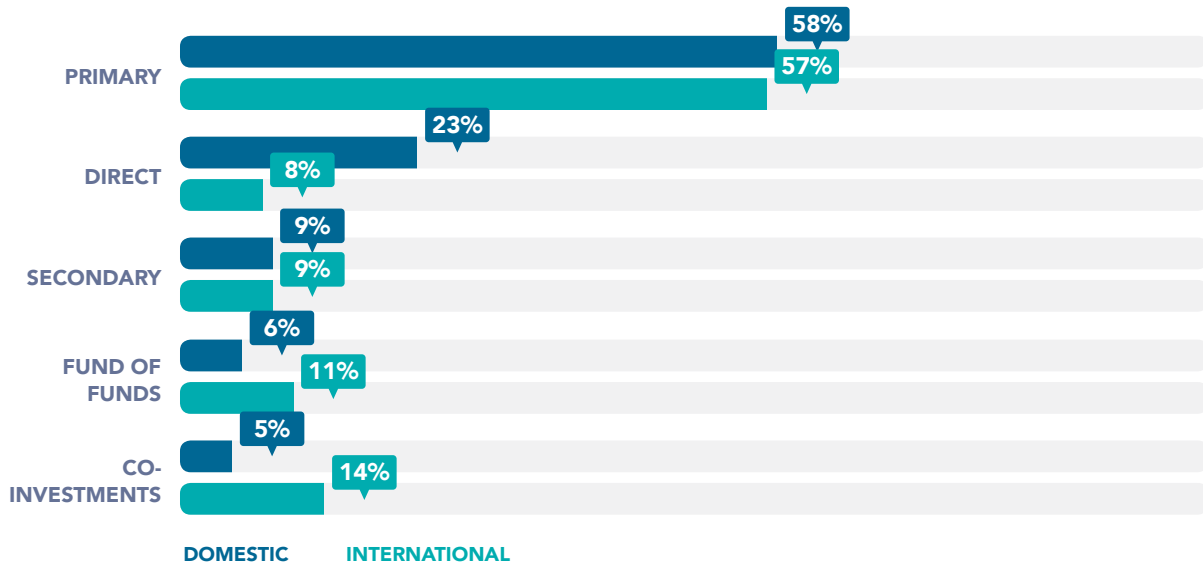


04 PERCENTAGE OF PE/VC ALLOCATION BY TYPE OF INVESTMENT



Both international and local investors allocate most of their PE/VC investments to funds with 53% and 63% respectively, followed by direct investments. International investors are also more active in fund of funds and secondaries (10%).

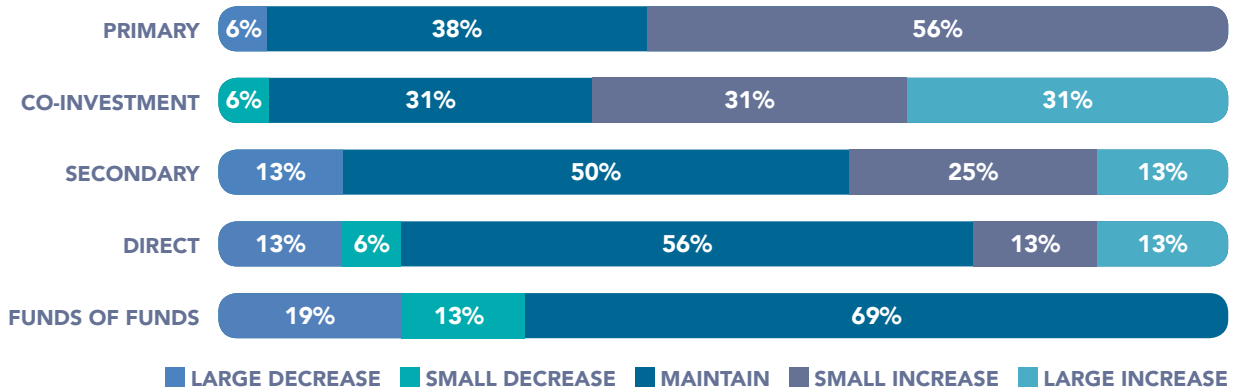
05 PERCENTAGE OF ALLOCATION FOR PE/VC IN BRAZIL BY TYPE OF INVESTMENT



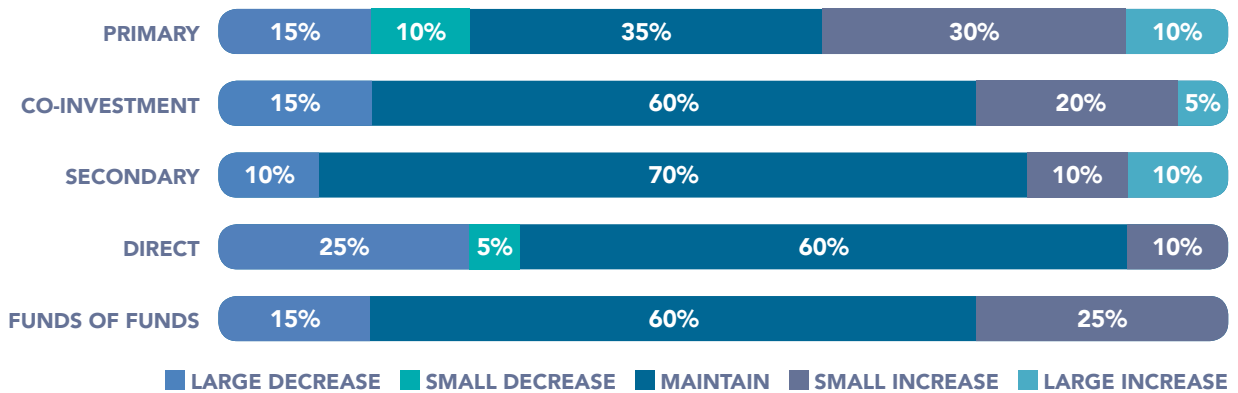
Narrowing down allocation for PE/VC in Brazil, the majority of both local and international investors goes to primary with 58% and 57%, respectively. International investors are more active in co-investments (14%) and fund of funds (11%), while local investors in direct investments (23%).

06 WHAT ARE THE PLANS FOR THESE TYPES OF INVESTMENTS OVER THE NEXT 3 YEARS?

INTERNATIONAL

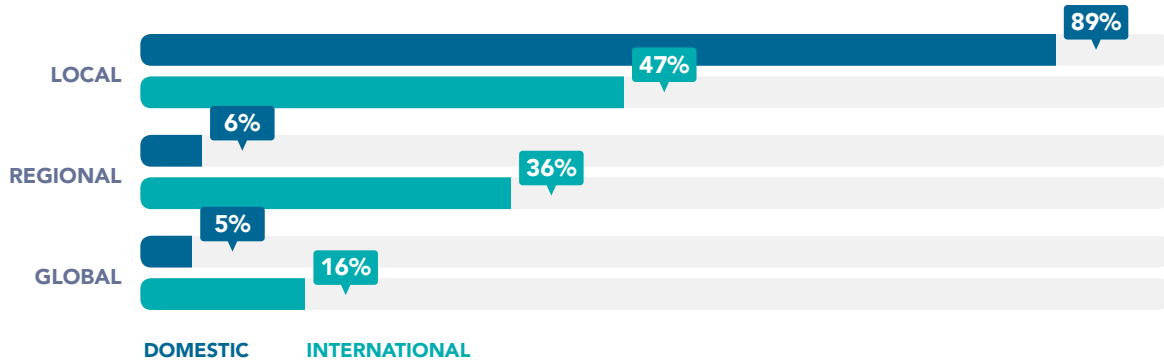


DOMESTIC



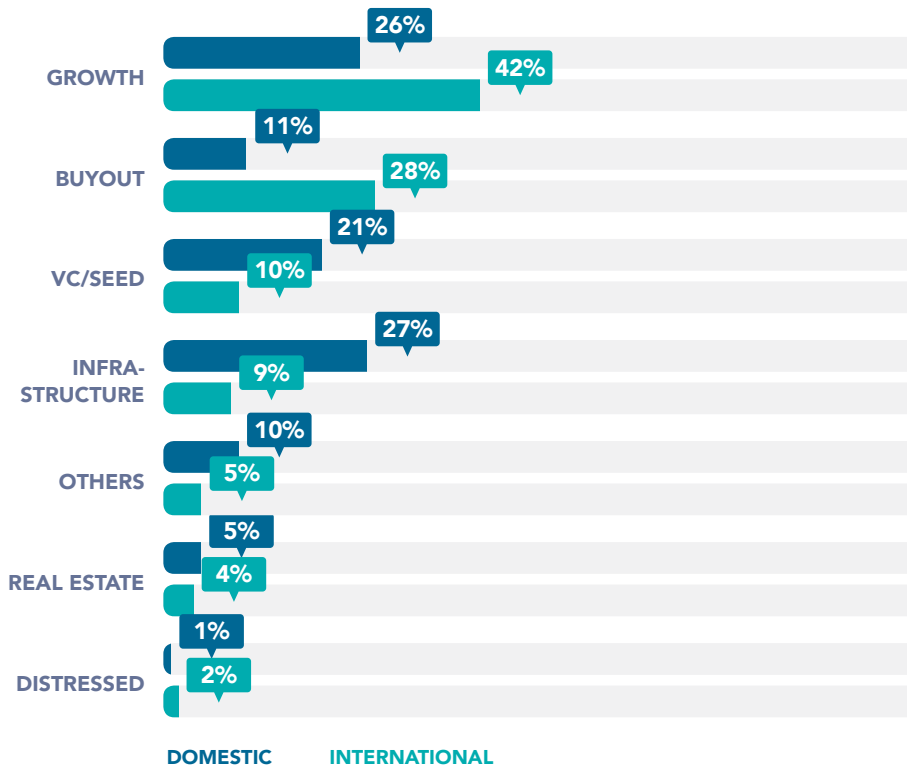
When thinking of the near future, international investors plan to increase their investments in primary (56%) and co-investments (62%) and overall maintain allocation of secondary, direct and fund of funds, although the latest should suffer a decrease in allocation. For local investors the majority plans to maintain their investment in fund of funds (60%), direct (60%), secondary (70%) and co-investments (60%), which also counted with 25% of the investors looking to increase allocation.

07 PERCENTAGE OF PRIMARY INVESTMENT FOR BRAZIL ALLOCATED TO LOCAL, REGIONAL OR GLOBAL FUNDS (%)



Of the primary investments made in Brazil, 89% were allocated to local funds by local investors, while international investors came in at 47%. As expected, international investors had a more diversified allocation in terms of regional and global funds with 36% and 16%, respectively.

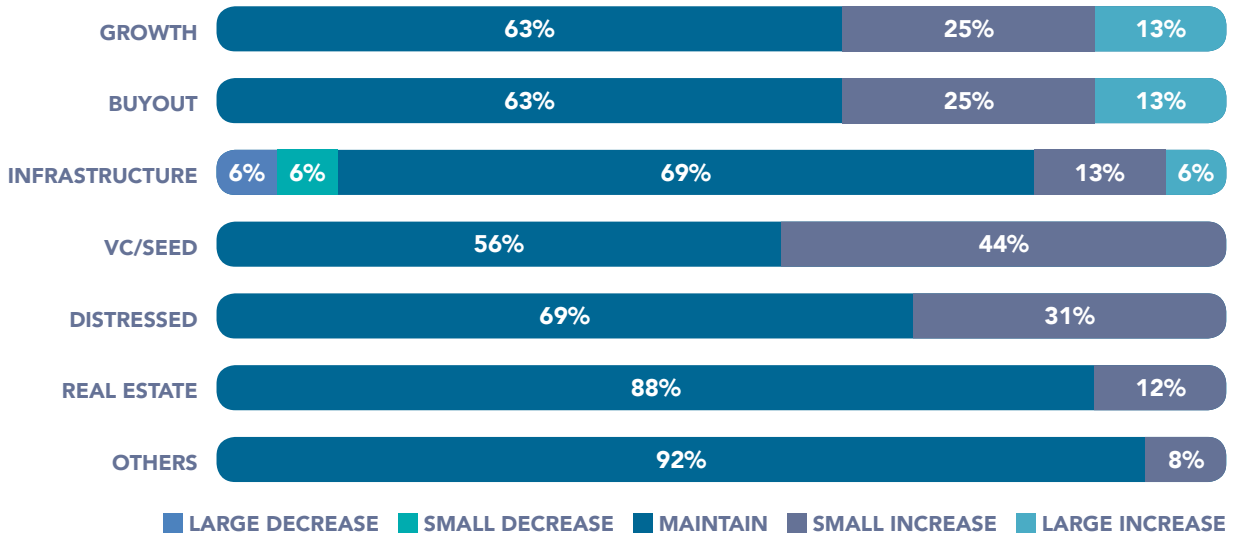
08 PERCENTAGE OF THE PE/VC PORTFOLIO IN BRAZIL BY TYPE OF FUND STRATEGY



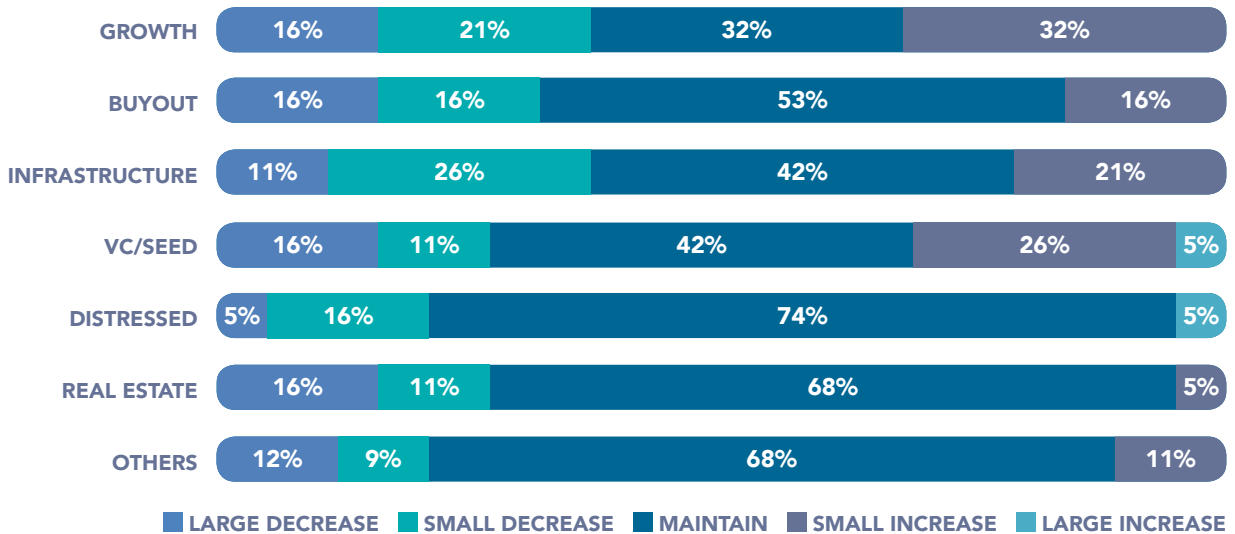
The survey indicated that most of international investors have allocated their resources in growth (42%) and buyout (28%), while local investors were more active in infrastructure (27%), followed by growth (26%). Buyout represents only 11% of the allocation of local investors.

09 WHAT ARE THE PLANS BY TYPE OF FUND STRATEGY IN THE NEXT 3 YEARS FOR BRAZIL?

INTERNATIONAL

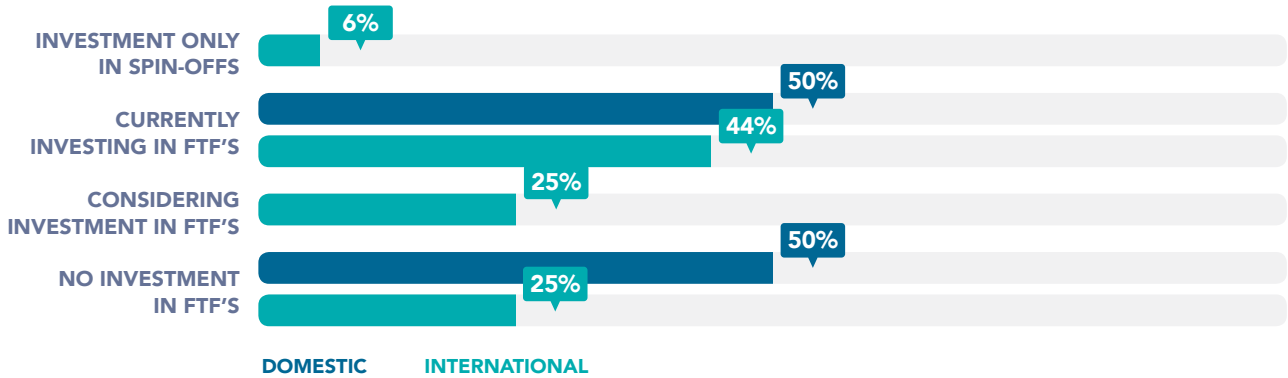


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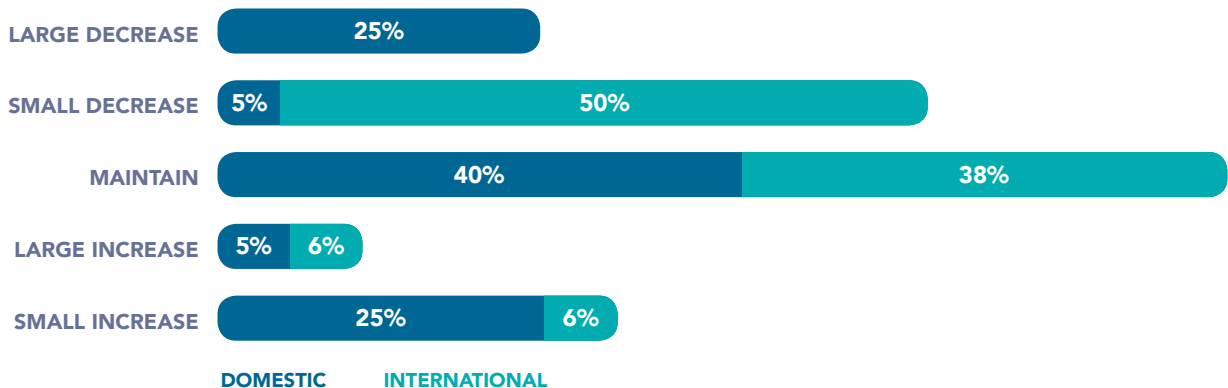
Moving forward three years from now, local investors foresee more changes than international investors in their portfolio allocation. Among local investors, while the majority plans to maintain investments in distressed (74%), real estate (68%), venture capital and seed capital (42%) and buyout (53%), there is a significant portion that plans to decrease investments, especially in infrastructure (37%). International investors seem to be more optimistic about the future. The vast majority plans to maintain their investments in all segments, with a possible increase in growth and buyout (38%) and in venture capital and seed capital (44%). At least 12% also plans to decrease investments in infrastructure.

10 INVESTMENTS IN FIRST-TIME FUNDS



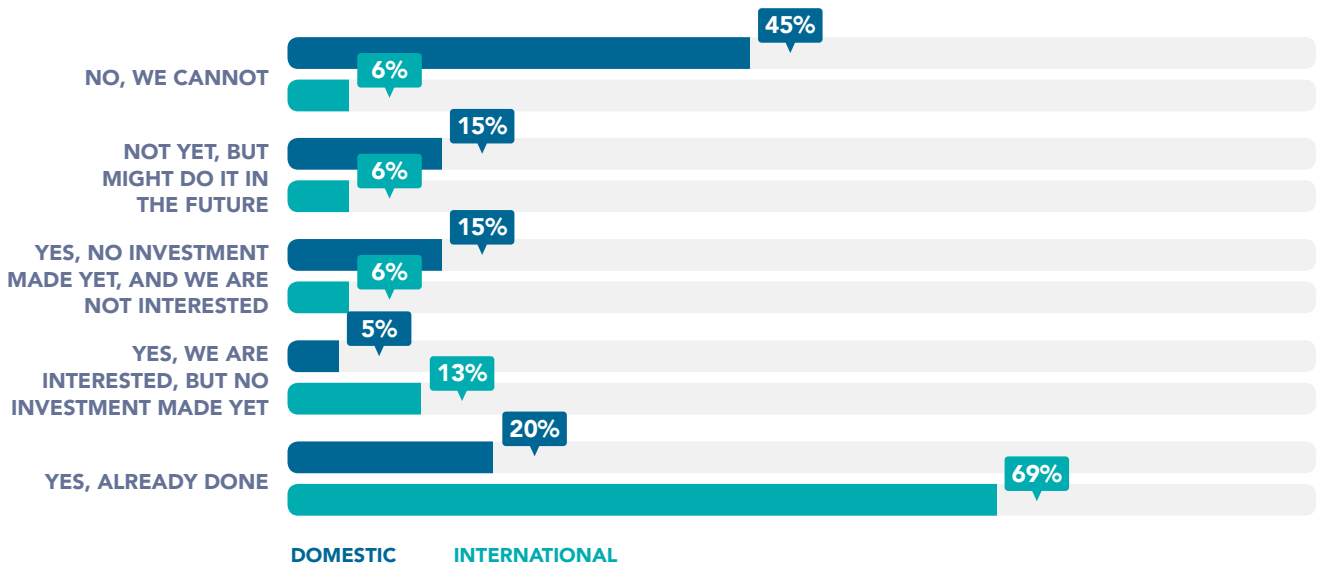
In regards to first-time funds, local investors were split in the middle between currently investing and not investing in FTFs. None plan to consider investing in FTFs. Among international investors 44% currently invests in FTFs and 25% are planning to do it.

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



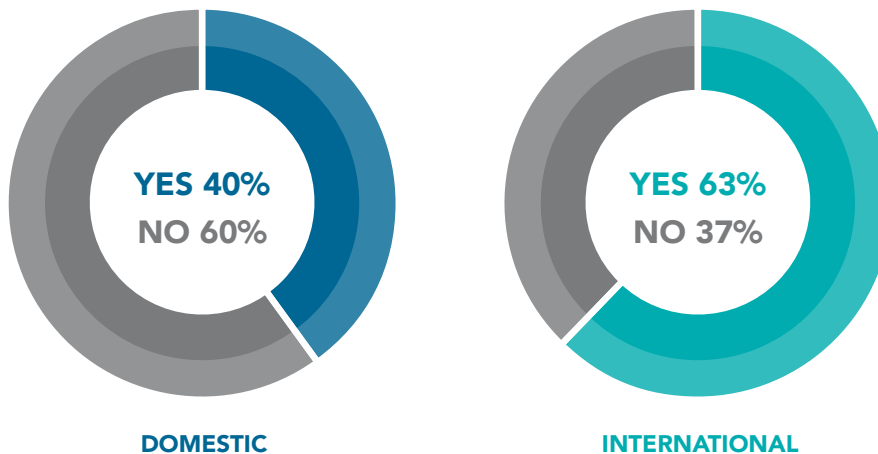
Following a global trend in the reduction of the relationships and increase of the tickets, 50% of the international investors plan to have a small decrease of their relationships in Brazil in the next three years. A total of 12% plans to actually increase it. At least 40% of local investors plan to maintain the number of relationships, while 30% plans to either increase or decrease their relationships moving forward.

12 CAN YOU MAKE A DIRECT INVESTMENT WITH A GENERAL PARTNER OUTSIDE OF YOUR PRIMARY RELATIONSHIP?

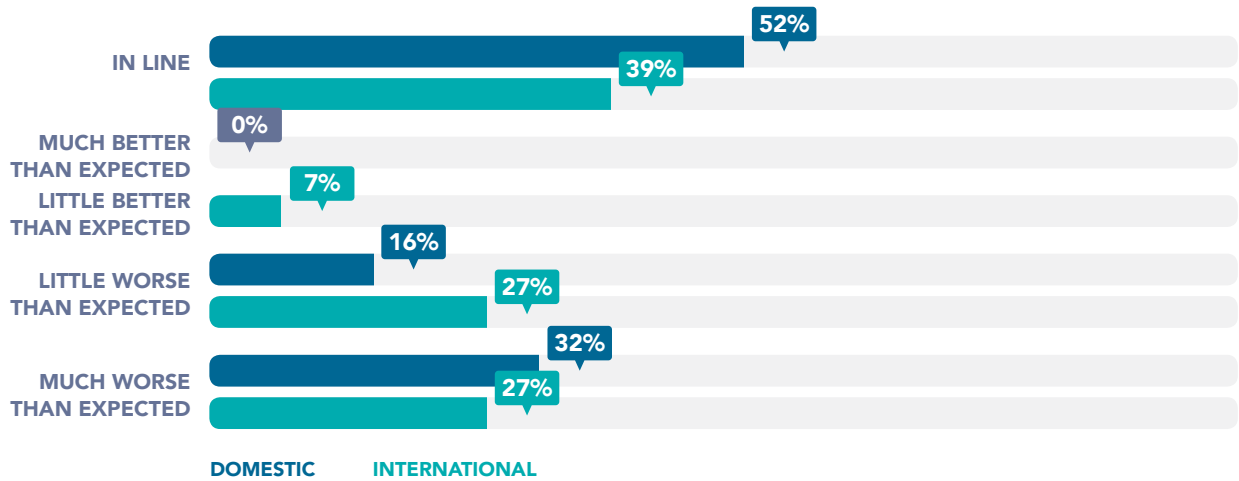


International investors seem to be more open to making direct investments to GPs outside of their portfolio with 69% of them having already done it. Domestic investors have more restrictions, which, looking to graphic 13, could be inferred to smaller or non-existent teams dedicated to direct investments. In Brazil this percentage is 40% compared to 63% among internationals.

13 DOES THE INSTITUTION HAVE A DEDICATED TEAM FOR DIRECT INVESTMENTS?

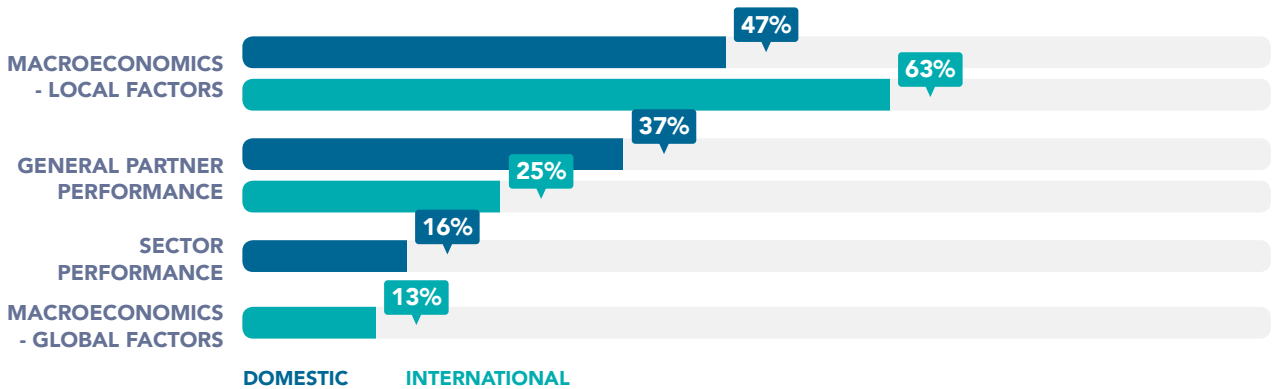


14 WHAT HAS BEEN THE PERFORMANCE OF YOUR PORTFOLIO IN BRAZIL RELATIVE TO YOUR EXPECTATIONS?

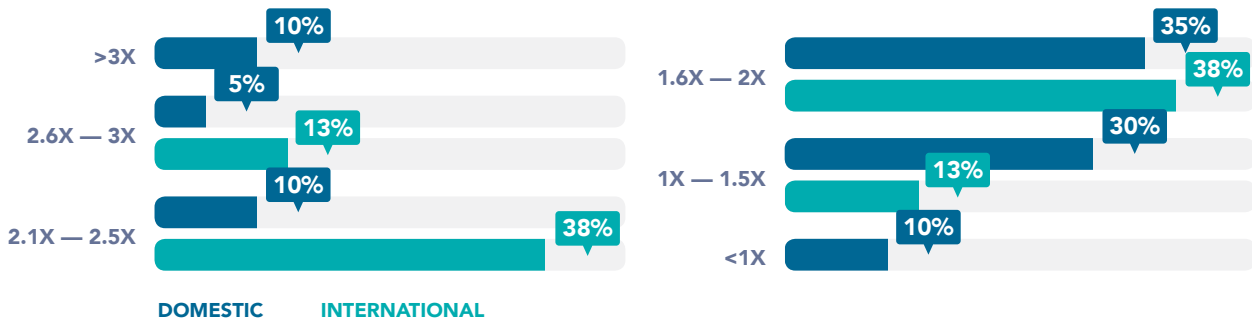


In spite of a large part of the investors believing that their Brazil portfolio performances are in line with their expectations, with internationals counting for 52% and Brazilians for 39%, a considerable share considers the performance is worse than expected and the principal reason identified are Brazil's macro scenario.

15 MAJOR FACTORS RESPONSIBLE FOR THIS PERFORMANCE

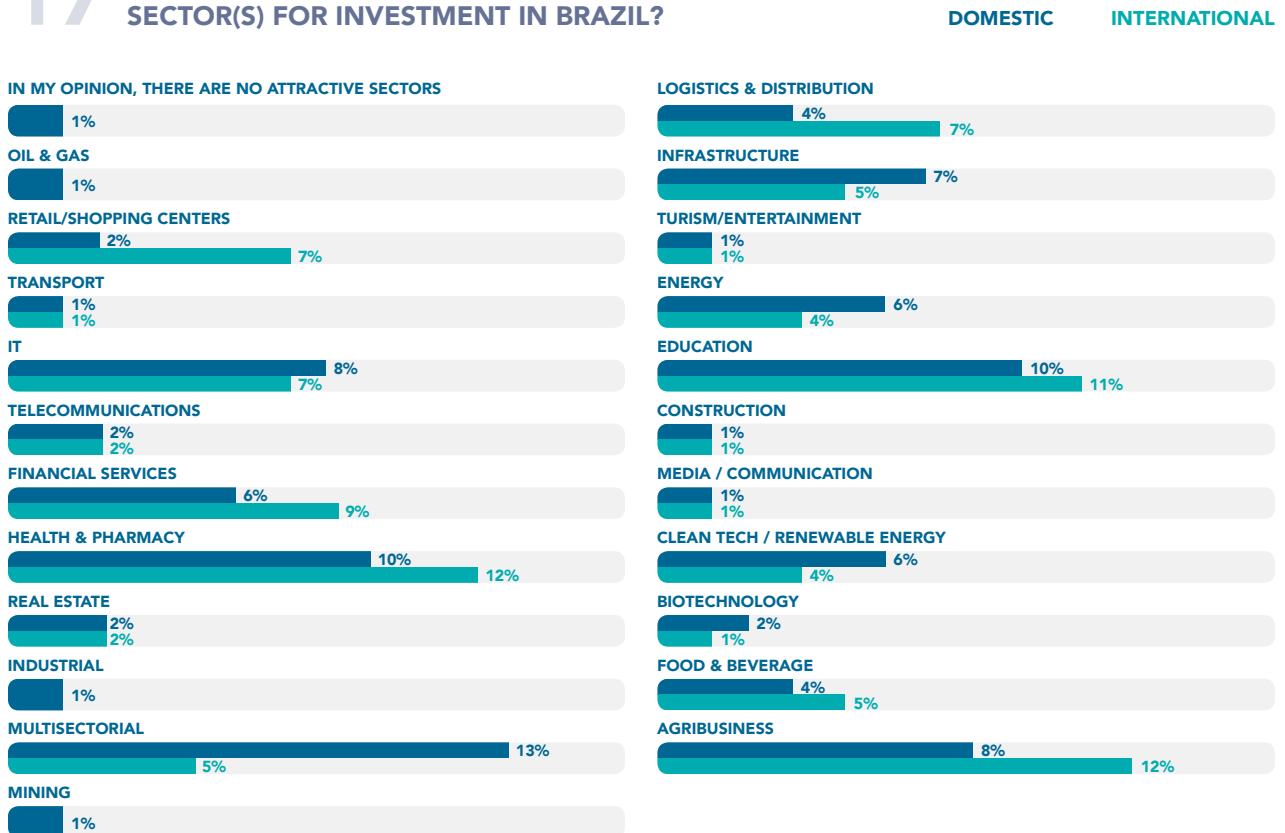


16 EXPECTATION OF RETURN FOR YOUR CURRENT PORTFOLIO OF PE/VC IN THE REGION / BRAZIL



The larger part of international investors is expecting returns between 1.6 to 2.5 times greater than the amount invested. Local investors expect a return between 1 to 2 times.

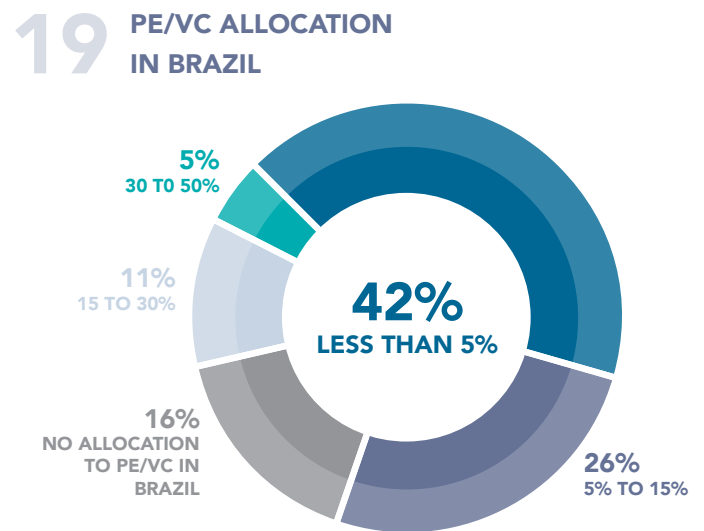
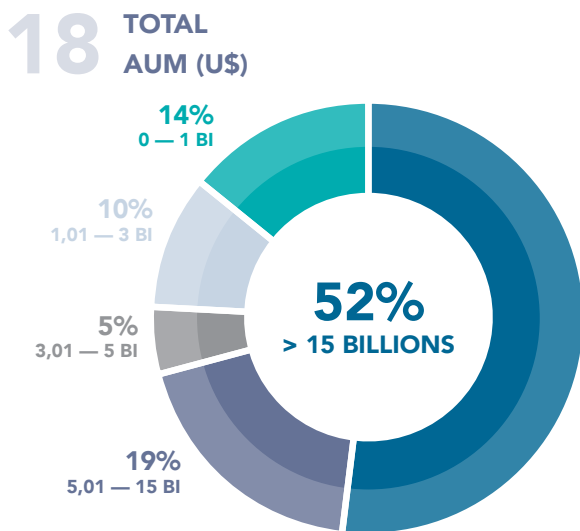
17 WHICH IS/ARE THE MOST ATTRACTIVE SECTOR(S) FOR INVESTMENT IN BRAZIL?



The sectors most attractive for both Brazilian and international investors include education and health and pharmacy. International investors also expressed a great interest in agribusiness while Brazilians also liked multi-sectorial opportunities.

PERSPECTIVES OF INTERNATIONAL INVESTORS

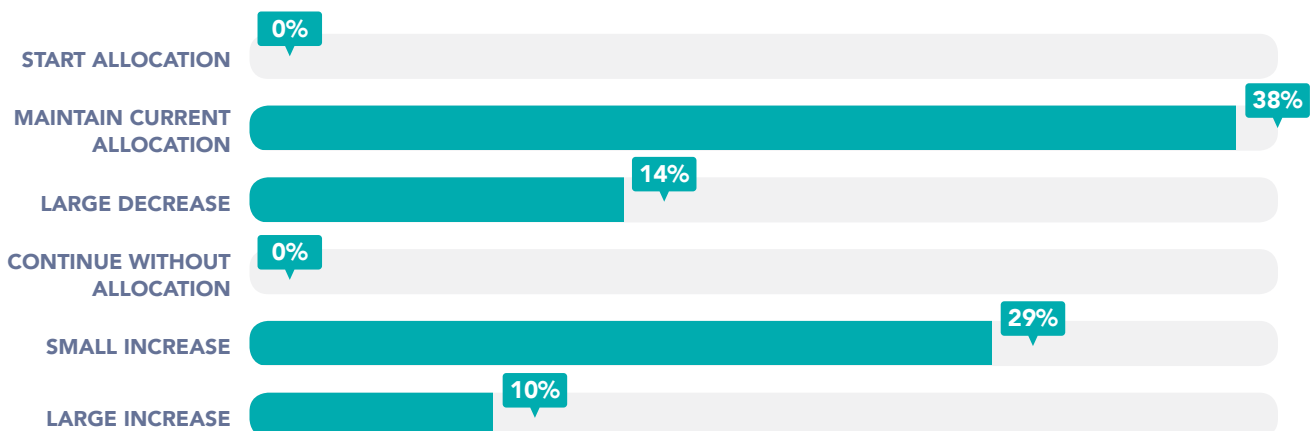
OF THE TWENTY (20) INTERNATIONAL INVESTORS INTERVIEWED, 52% HAVE AUM ABOVE US\$ 15 BILLION. AND MORE THAN 84% HAVE PE/VC ALLOCATION IN BRAZIL.



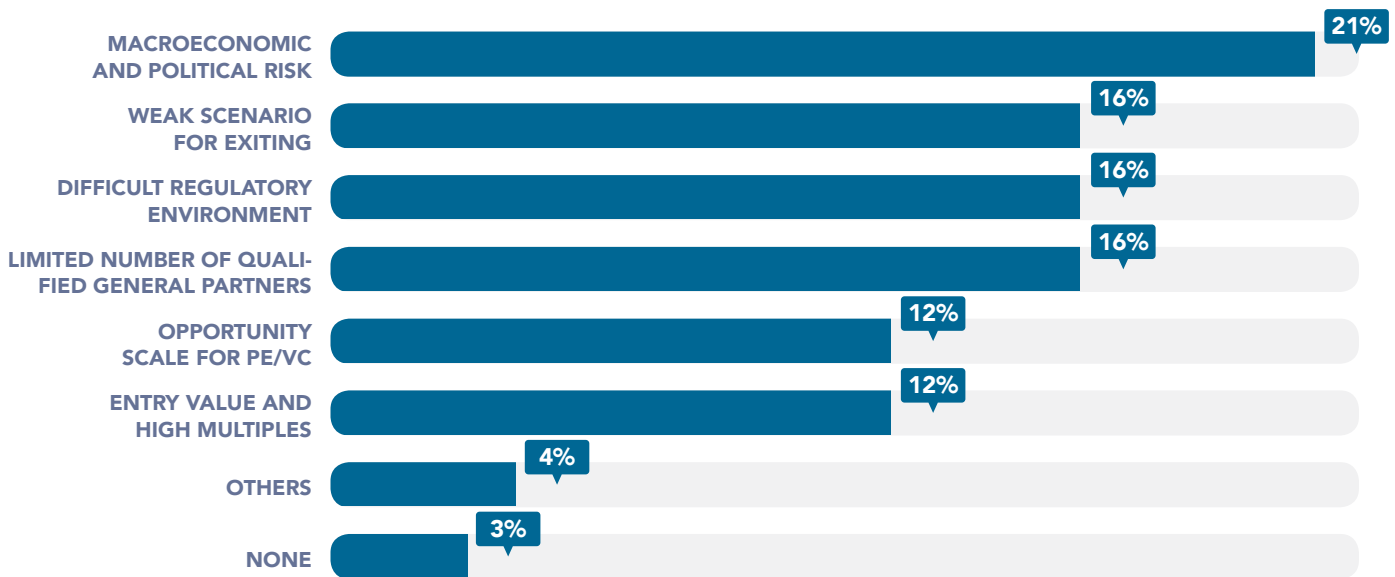
The expectation of international investors in relation to Brazil is positive. For the next three years, 38% of international investors plan to maintain their current allocation. In addition, 39% intend to increase their allocation in the country.

19 PE/VC ALLOCATION IN BRAZIL IN THE NEXT 3 YEARS

INTERNATIONAL

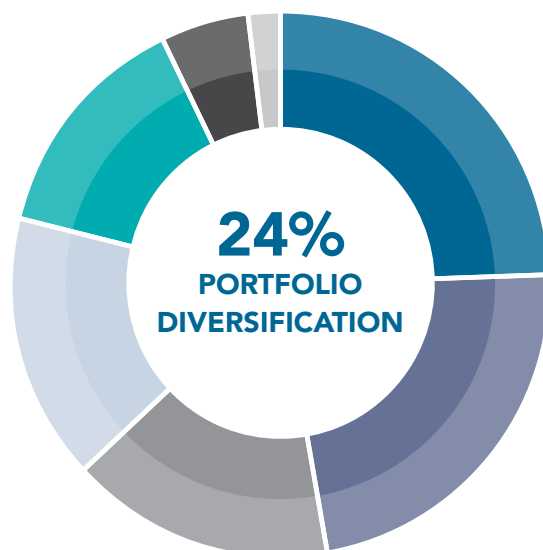


20 MAIN CHALLENGES IN THE MARKET OF PE/VC OF BRAZIL



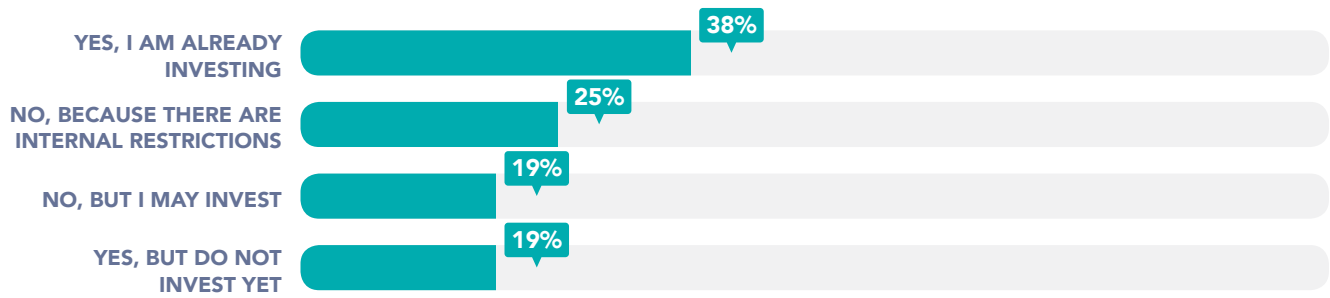
International investors indicated that the main challenge faced in the PE/VC market in Brazil is related to the country's macroeconomic and political scenario, which is not exclusive to this industry, felt in virtually all sectors of the economy. Among the main reasons to invest in the PE/VC industry in Brazil, portfolio diversification and qualification of the general partners were the most cited. In addition, the best risk-return ratio, when compared to more developed markets, and the consolidated ecosystem of PE/VC were also pointed out.

21 MAIN REASONS FOR INVESTING IN PE/VC IN BRAZIL



22 AVAILABILITY TO INVEST IN FIPS WITH LOCAL REGULATIONS

INTERNATIONAL

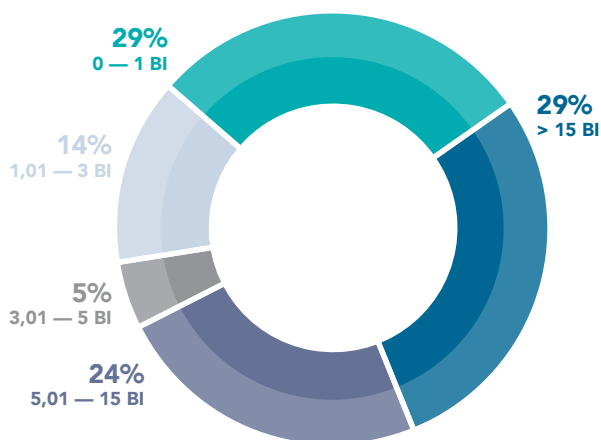


When asked about the possibility of investing in FIPs with local regulations, international investors didn't see it as a problem, with 57% having no restrictions and the majority already investing in local structures and only 25% citing internal restrictions.

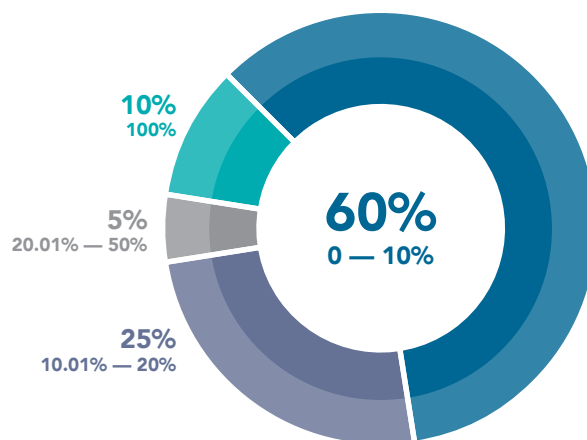
PERSPECTIVES OF DOMESTIC INVESTORS

Most of domestic investors are government agents, sovereign wealth funds and pension funds that concentrate their allocation on primary (63%) and direct (20%) investments.

23 TOTAL AUM (R\$)



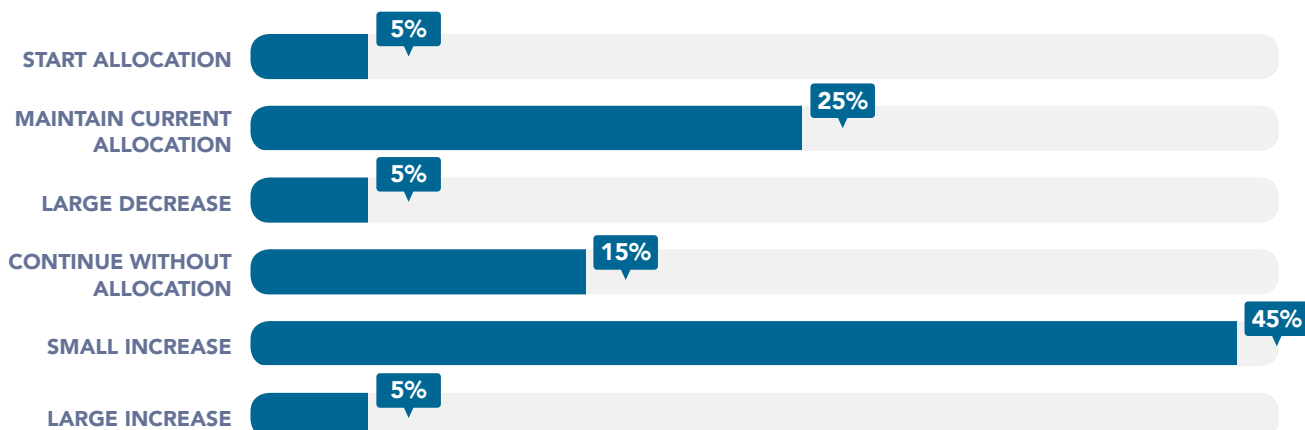
24 PE/VC ALLOCATION IN BRAZIL RELATED TO AUM (%)



The majority of domestic investors have only up to 10% of their AUM allocated on PE/VC assets, and half of them expects to increase their allocation in the next three years, representing a growth opportunity for the Brazilian market.

25 PE/VC ALLOCATION IN BRAZIL IN THE NEXT 3 YEARS

DOMESTIC

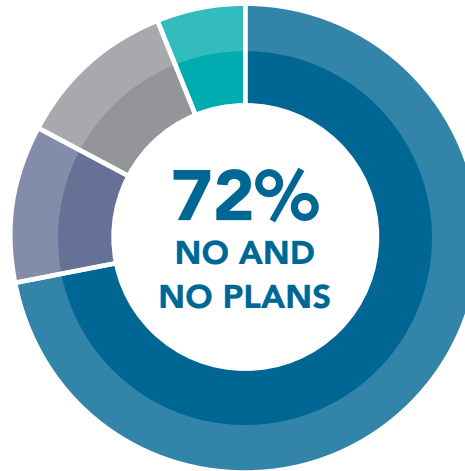


26 INVESTMENT PLANS IN PE/VC ABROAD

11%
YES, BUT NOT INVESTING YET

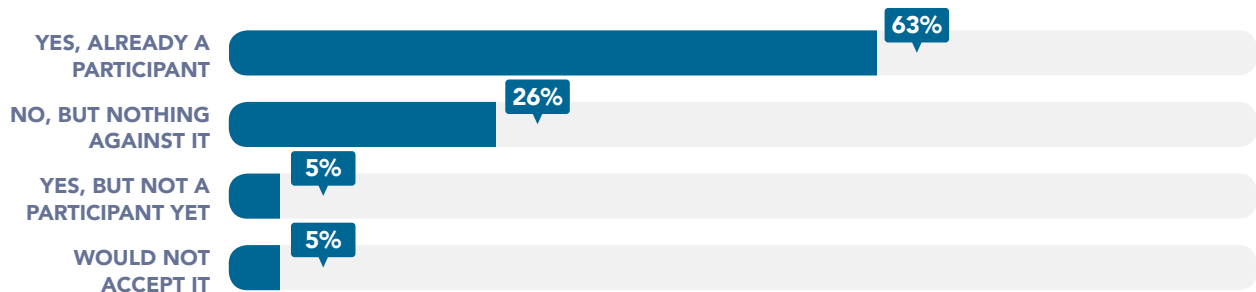
11%
NO, BUT PLANNING TO INVEST

6%
YES, ALREADY INVESTING



When asked about plans to invest in PE/VC abroad the vast majority (72%) said they are not investing or have plans to do so, at least not in the near future.

27 PARTICIPATION IN FUNDS WITHOUT AN INVESTMENT COMMITTEE FORMED BY LIMITED PARTNERS



One of the main differences between international investors and local investors is their participation in the fund investment committee. While international investors refrain from this practice, local investors, at least some, have it as a requirement to invest. The reasons are several including that the asset class in Brazil is relatively young when compared to developed markets. However this practice seems to be changing along the past years. The survey showed that 63% of the Brazilian respondents already participate in funds with no LPs in the investment committee. In addition, only 5% of the respondents said they would not accept being in a fund without participating in the investment committee.

METHODOLOGY

The Survey was developed through questionnaires sent through an electronic platform to a selected group of investors engaged in private equity and venture capital investments. The process was conducted between April and May 2017 and counted on the participation of 40 private equity and venture capital investors, of whom 20 were domestic and 20 were international investors of various investor groups, including pension funds, government agents, fund of funds and family offices.

The final results were presented at the LP Morning on June 6th 2017 during ABVCAP's Annual Conference in São Paulo.

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