

VENTURE CAPITAL & PRIVATE EQUITY GUIDE



MESSAGE FROM THE CHAIRMAN

At the end of 2013 ABVCAP released the first version of the **Guide to Venture Capital and Private Equity**.

The direct product of intense work by the Executive Committee of Institutional Investors (ECII), the Guide is the result of a broad discussion of practices and procedures used in the relationship between investors and managers of private equity, venture capital and seed funds. The guide also underwent a process of review by the members of ABVCAP and was approved by the Executive Council of the Association.

The purpose of this Guide is to point out guidelines for adoption of best practices in venture capital and private equity in order to improve the relationship between investors, managers and other participants in the industry. It also aims to help new managers and investors who wish to participate in this industry in understanding the asset class.

The Guide has the intention of acting as orientation and is not to be seen as a mandatory set of rules. From the perspective of the investors participating in the ECII, the intention is to standardize their demands, thus facilitating and speeding up the necessary work of the back offices of the fund managers.

As noted at the time of its initial release, the purpose of the Guide is to be dynamic, with periodic updates and the ability to reflect the evolution of the industry, with topical adjustments and adding new themes as necessary.

This edition brings the updated version, revised in the second half of 2014 by the ECII and approved by the Board of Directors of ABVCAP.

On behalf of this Board, we would like to register our thanks to the members of the ECII – the Executive Committee of Institutional Investors, coordinated by its council member Patricia Freitas, and all the institutions that make up this Committee who spared no efforts to produce and update this guide which is now a landmark document for the private equity, seed and venture capital industry of Brazil.

Fernando Cezar Dantas Borges

CHAIRMAN

CEII

EXECUTIVE COMMITTEE OF INSTITUTIONAL INVESTORS

The Executive Committee of Institutional Investors has the objective of providing common ground between the interests of investors and of other participants of the venture capital and private equity industry through its work within **ABVCAP – the Brazilian Association of Private Equity & Venture Capital**. For that purpose, the ECII looks to periodically debate matters of common interest, discuss the international experience of the **PE/VC** industry and seek the application of best practices in Brazil.

PARTICIPANT INSTITUTIONS

ABRAPP	Associação Brasileira das Entidades Fechadas de Previdência Complementar
BB	Banco de Investimento S.A.
BDMG	Banco de Desenvolvimento de Minas Gerais
BID/FUMIN	Fundo Multilateral de Investimento/Banco Interamericano de Desenvolvimento
BM&FBOVESPA	Bolsa de Valores, Mercadorias e Futuros de São Paulo
BNB	Banco do Nordeste do Brasil S.A.
BNDES	Banco Nacional de Desenvolvimento Econômico e Social
BRDE	Banco Regional de Desenvolvimento do Extremo Sul
CAF	Banco de Desarrollo de América Latina
CELOS	Fundação CELESC de Seguridade Social
CERES	Fundação de Seguridade Social
DESENVOLVE SP	Agência de Desenvolvimento Paulista
ECONOMUS	Instituto de Seguridade Social
ELETROS	Fundação Eletrobrás de Seguridade Social
ELOS	Fundação Eletrosul de Previdência e Assistência Social
FACHESF	Fundação Chesf de Assistência e Seguridade Social
FAPES	Fundação de Assistência e Previdência Social do BNDES
FIBRA	Fundação Itaipu-BR de Previdência e Assistência Social
FINEP	Inovação e Pesquisa
FUNCEF	Fundação dos Economiários Federais
FUNCESP	Fundação Cesp
PETROS	Fundação Petrobras de Seguridade Social
PREVI	Caixa de Previdência dos Funcionários do Banco do Brasil
REAL GRANDEZA	Fundação de Previdência e Assistência Social
VALIA	Fundação Vale do Rio Doce de Seguridade Social

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VENTURE CAPITAL AND PRIVATE EQUITY GUIDE

This Guide has the objective of providing directives for the adoption of best practices in the **venture capital and private equity** industry in order to enhance the relationship between the Limited Partners, General Partners and other participants of this industry.

The Guide is the result of ample debate within the Executive Committee of Institutional Investors and it was based on the practices recommended by the Private Equity Principles issued by the Institutional Limited Partners Association (“ILPA”).

The Guide is divided into three main sections (transparency, interest alignment and governance) and it has the objective of describing what ABVCAP believes to be the essence that should guide the relationship between Limited Partners, General Partners and other participants of the industry.

Each section is divided into 3 parts: the introduction of the subject, the minimum content to be included in the instruments of incorporation of the fund (by-laws, investment commitment, the signing forms) and the set of best practices to be followed within each subject.

ABVCAP also believes that the adoption of best practices should contribute to a better return for the investments and sustainability for the industry. However, we acknowledge that this Guide does not cater for all situations and circumstances of the market and thus we emphasize the importance of the alignment of expectations between Limited Partners and General Partners at the beginning of each new relationship.

The present Guide is meant to be used as a guide and its contents, which are not definitive or final, may be subject to revisions and updates.

TRANSPARENCY

The success of the industry depends on transparency in the disclosure and presentation of the information that contributes to the monitoring and decision-making process. However, the Limited Partners acknowledge the importance of the confidentiality of the information received from General Partners and Administrators.

Thus, the General Partners and Administrators should make available to the Limited Partners all relevant information involving the fund and invested companies, subject to the restrictions imposed by the applicable legislation, as well as the signed confidentiality agreements.

COSTS AND EXPENSES OF THE FUND

Transparency in the disclosure of charges and expenses of the fund is fundamental for Limited Partners to be able to measure the total costs related to the fund.

Only with transparency is it possible to monitor if the costs paid by the fund are in accordance with the instruments of incorporation.

MINIMUM EXPECTED CONTENT

The instruments of incorporation of the fund should provide for:

- The detailing of the costs and expenses of the fund, including the maximum percentages of the eventual committed capital;
- The inclusion in the annual audit of the costs and expenses charged to the fund;
- The clear presentation of all costs and expenses of the fund in the audited financial statements of the fund, as well as other additional revenues that may be received by the General Partner related to the management activities of the fund and that are to be transferred to the fund.

BEST PRACTICES

- The audited financial statements of the fund should include in separate items and/or notes:
 - Management fee;
 - Performance fee (carried interest);
 - Incorporation expenses;
 - Due-diligence expenses;
 - Other fees and expenses of the fund;
 - Benefits or advantages transferred to the fund by the Administrator/General Partner;
 - Potential financial obligations undertaken by the Fund.
- The audit of conformity of costs and expenses should be in accordance with the value, nature and form of appropriation, as per the instruments of incorporation;
- Each expense should be listed by contracted company, service provided and respective project.

CAPITAL CALLS AND DISTRIBUTION NOTICES

The capital calls and distribution notices should contain the necessary information for the financial monitoring of the fund. The standardization of the minimum expected content in the capital calls can contribute to the reduction of the time necessary for its processing.

MINIMUM EXPECTED CONTENT

The capital call should detail:

- The number of the respective capital call;
- Total amount and number of shares subscribed (committed) in the fund by Limited Partner;

- Amount and number of shares to be paid in by the Limited Partner in the respective call;
- Total amount and number of shares called until the last capital call;
- Destination of the resources, separating that earmarked for investments and that for expenses;
- Date and determination of the proceedings that approved the respective capital call, when applicable;
- Eventual conditions for the referred capital call and requirements for compliance with those conditions.

THE NOTICE OF DISTRIBUTION SHOULD INDICATE:

- Total value being distributed by the fund at the time;
- Total value being distributed to the Limited Partner;
- Total value distributed by the fund up to the last distribution;
- Origin of the value being distributed.

BEST PRACTICES

- Disproportionate capital calls should be avoided so that the percentage of participation of the Limited Partners in the capital paid up is aligned with the subscribed capital during the life time of the fund.
- The rules for retention of resources in order to fulfil future capital calls should be part of the instruments of incorporation of the fund. Modifications to these rules should be approved by all Limited Partners and should not modify their financial commitments.

RELEVANT INFORMATION

The Limited Partners have a fiduciary duty to fulfill and should be immediately informed about any relevant information that may significantly impact the fund. Furthermore, said relevant information can influence the Limited Partners in their decision-making process.

MINIMUM EXPECTED CONTENT

- The Limited Partners should be immediately notified by the General Partner and/or Administrator in the occurrence of the following events:
 - Inquiries, investigations or proceedings from controlling, regulating or judicial entities, or contingencies or debts of the fund or invested companies, if related to the management of third party assets or have a prominent impact on the General Partner;
 - Notifications received by the General Partner or the Administrator due to non-compliance with the instruments of incorporation;
 - Relevant shareholder or partnership changes in the General Partner when itself a listed company;
 - Prominent partnership changes in the invested companies;
 - Changes in the key men of the fund;
 - Stock Market registration or listing of the General Partner;
 - Other facts considered relevant in accordance with existing legislation, including notifications and decisions about investments and divestments from anti-trust authorities.
- Any fund raising of new venture capital or private equity funds by the General Partner should be communicated before its start;

- General Partners, Administrators and Limited Partners should inform about conflicts of interests, actual or potential, in relation to the fund and/or the invested companies.

BEST PRACTICES

- The General Partner and/or the Administrator should keep the Limited Partners permanently informed about the fund, the General Partner and the invested companies.
- The General Partner and/or the Administrator should supply the Limited Partners with information about the invested companies and the fund before any external disclosure, in compliance with the restrictions imposed by the applicable legislation, as well as the signed confidentiality agreements.
- Relevant facts should be immediately communicated to the Limited Partners, regardless of the periodicity of the reports.
- The General Partner and/or Administrator should communicate to the investors the closing (or non-closing) of investments and divestments.
- The General Partner should communicate any strategic changes in the management company, as well as the start of, expansion or closure of areas of activity.

RISK

Risk management is fundamental for the Limited Partners to monitor the performance of the fund and the invested companies. The communication of the risks is important for the Limited Partners to have full knowledge of the inherent risks of the investment activity.

Additionally, by means of a consistent risk management plan, it is possible to evaluate if the General Partner and/or the Administrator of the fund are anticipating potentially undesired results and that mitigating measures are in place for each kind of risk identified.

MINIMUM EXPECTED CONTENT

- The promotional material of the fund, the instruments of incorporation as well as the annual reports, should include information about the following risks and respective mitigating measures:
 - Concentration;
 - Exchange rates;
 - Leverage;
 - Illiquidity of the assets;
 - Investment policy;
 - Image or reputational;
 - Environmental and social;
 - Governance and management;
 - Regulatory / legal.

BEST PRACTICES

- In addition to the annual reports, relevant events should be immediately reported to the Limited Partners, especially in relation to:

- Non-financial risks, such as environmental, social, management and regulatory/legal risks, regarding the fund and the invested companies;
- Reputation or image risk for the invested companies;
- Continuity risk (liquidity, solvency, etc.).
- The risk management structure of the fund should maintain a culture of discipline and transparency, aiming at an appropriate and prudent approach in the decision-making process, and establishing controls and limits with the objective of identifying, measuring, mitigating and managing the risks of the fund.

FINANCIAL INFORMATION

Sufficient financial information available at adequate periodicity helps the monitoring of the fund and the invested companies, and also facilitates the decision-making process for the Limited Partners. Adequate controls will help an active management of their own fund portfolio on the Limited Partners' side, enabling analyses of their industry exposure, fund returns by vintage year, among other factors.

In addition, standardization should be sought for between General Partners and Limited Partners, while not excluding the need for eventual customized information.

MINIMUM EXPECTED CONTENT

The instruments of incorporation of the fund should provide for:

- Periodic meetings to monitor the fund, with the participation of Limited Partners.
- Distribution of annual and quarterly reports about the situation of the fund and the invested companies.
- Indication of the possibility of requesting at any time additional information about the fund and the invested companies, in that the instruments of incorporation of the fund should indicate the manner in which this request can be made and answered.
- All Limited Partners should have access to the same information, regardless of the petitioner, as long as confidentiality is preserved.
- An annual meeting with Limited Partners to present the management's valuation of the assets of the fund, detailing the eventual changes in expectation of the fund profitability and the form of divestment for each asset in accordance with the methodology previously agreed upon. If the Limited Partners so wish, the General Partner and/or Administrator may be authorized to hire an outside agent to conduct an independent valuation, paid for by the fund.
- Relevant facts should be immediately communicated to the Limited Partners, regardless of the periodicity of the reports.

BEST PRACTICES

- Information about the fund and the invested companies should be available at an electronic site, at any time, without prejudice of the need for formal communication on the part of the General Partner.
- A set of information should be sent to the Limited Partners in accordance with an established periodicity (monthly, quarterly and annual), as per the following summary and detailed table in Annex II.

- MONTHLY REPORTS

- Information on shares (number of shares and value per share);
- Fund portfolio - participation of the fund in the invested companies;
- History of investments, amortizations and divestments;
- Value of the capital paid in by the Limited Partners brought up to date by the fund benchmark and by the distributions of results (amortizations, distribution of dividends and JSCP, among others).

- QUARTERLY REPORTS (includes information from monthly reports):

- Statement of Partners' Capital, which typically includes:
- History of contributions to the fund (dates and amounts);
- History of distributions of the fund to the Limited Partners (dates, amount and type – amortization, income, dividends, JSCP, among others), and whether or not these distributions are recallable by the General Partner;
- History of distributions of the fund to the General Partner (dates, amount and type – management fee, carried interest, expense reimbursement, among others);
- Capital balance forecast to be paid in to the fund (investments, follow on, charges);
- Main highlights of the invested companies during the period (advances and retreats);
- Main key performance indicators of the invested companies and the fund (KPIs);
- Income Statement, account balance and cash flow of the invested companies during the period (with electronic spreadsheet detailing carried out vs. planned);
- Alteration of the invested companies strategy compared with the business plan proposed in the investment or in the last report;
- Evolution of the fund raising (in case of additional closings);
- Evolution of the pipeline;
- Capital Calls forecast;
- Exhibit of the Net Asset Value of the fund to be distributed to the investors and the Administrator / General Partner (based on the last portfolio valuation and net of unrealized performance fees/carried interest estimated for the General Partner).

- ANNUAL REPORTS, which should be audited by an independent third party (include information from the quarterly reports):

- Annual audited financial statements with notes that should include:
 - The fund's legal formation date;
 - The total Limited Partners' capital commitment and the total General Partner capital commitment;
 - Description of overall fund strategy, including geographic focus, industry/sector focus, and investment stage focus (e.g. seed stage, mid cap buyouts).
- Allocation of the team to perform the activities of the fund;
- Alterations in operational processes, team retention policy and adhesion to codes of internal conduct;
- History of meetings held (assemblies, boards, councils and committees of the fund);
- History of visits to the invested companies;
- Perspectives on the target sector of the fund and last relevant transactions;
- Valuation of the invested companies, comparing the original with the revised one;
- Financial statements of the invested companies with independent auditors' opinion;
- Explanations by the General Partner about eventual qualifications and/or emphases included in the audit reports of the invested companies, when requested by the Limited Partners;
- Perspectives of divestment;

- Remuneration of executives and members of the Board of Directors;
- Innovation indicators;
- Social indicators;
- Actions of social-environmental responsibility made by the General Partner and invested companies;
- Details of the fund expenses, including expenses for due-diligence;
- Valuation of the fund portfolio and profitability expectations;
- General Partner analysis on the fund performance.

LIMITED PARTNERS

Transparency in the relation between the General Partner/Administrator and the Limited Partners is fundamental for the good development of the fund and should be detailed in the instruments of incorporation.

MINIMUM EXPECTED CONTENT

The instruments of incorporation should include specific clauses on:

- Initial capital call;
- Prior conditions for the subscription and payments of shares;
- Conditions for additional closings, when applicable;
- Share payment options;
- Defaults;
- Admission of new Limited Partners;
- Resolving conditions for potential conflicts of interest;
- Grants of share sale option;
- General provisions;
- Notifications;
- Arbitration;
- Existence of differentiated rights (classes of shares, economic and/or political rights).

BEST PRACTICES

- All Limited Partners should be granted access to:
 - List of contacts of the Limited Partners participating in the fund, with the exception of those that explicitly opted for non-disclosure of their data;
 - All documents regarding the closing of the fund, including the final versions of commitments of investment, in addition to the by-laws of the fund and any others to be signed in the future.
- The Limited Partners receiving confidential information regarding the fund should keep said information confidential. Confidentiality agreements should be provided clearly indicating that Limited Partners may discuss matters related to the fund amongst themselves.
- Limited Partners should support the General Partner/Administrator when taking action against those who deliberately breach the confidentiality agreements.
- Bilateral agreements between General Partner, Administrator and Limited Partners should be avoided.

INTEREST ALIGNMENT

The long term nature of venture capital and private equity funds requires an exhaustive evaluation of the alignment between the General Partner and the Limited Partners. This alignment should be obtained based on a healthy combination of the following elements: commitment of financial resources from the General Partner, performance fee (carried interest), management fee, dedication of the team and the duration of the fund.

For the best possible alignment between General Partners and Limited Partners, the financial return of the General Partners should mainly come from the revenue originated from the performance fee (carried interest), the added value of the invested companies and the financial return of their participation as Limited Partners of the fund.

The commitment of resources owned by the General Partner in the fund represents one of the main incentive mechanisms of the alignment of interests between the parties since, in case of failure; the General Partner also shares the losses with their own resources as Limited Partners in the fund.

The level of return used for the hurdle rate, after which the fund manager receives a performance fee, should be compatible with the asset class and should also be used as a means to align interests between General Partners and Limited Partners.

For the best possible alignment between the parties, the distribution to the Limited Partners of the totality of their capital invested increased by the hurdle rate, should occur before the payment of any carried interest to the General Partner.

TAXA DE MANAGEMENT FEE

The management fee is an ancillary alignment mechanism between General Partners and Limited Partners during the operation of the fund. As a basic principle, it should be adequate to cover the operational costs of the fund and the maintenance of the General Partner team during the period. The management fee should be based on the budget of the fund and should be the object of detailed evaluation by the Limited Partners.

Being a long term asset class, situations may occur during the life of the fund that might raise new discussions about its respective operational costs. General Partners and Limited Partners should be prepared for these evaluations.

MINIMUM EXPECTED CONTENT

The instruments of incorporation of the fund should include the following points about the management fee:

- Details of its calculation and distribution during the life of the fund;
- Treatment to be given in case of partial or total write-offs of invested companies;
- Treatment in case the investment period of the fund is extended;
- Treatment in case the total period of the fund is extended;

BEST PRACTICES

- In the phase of due diligence, the General Partner should present the detailed budget of the fund including fixed and variable costs, details of the use of the resources originating from the management fee, including salaries, bonuses and fixed and variable costs;
- In the phase of due diligence, the General Partner should present the projections of cash flow of the fund detailing all revenue and expenditure. It is important that the Limited Partners know what amount from the total remuneration of the General Partner is expected to come from the management fee;
- In the phase of due diligence it is recommended that the Limited Partners verify the impact that other revenues earned had in the management fee of previous funds of the same General Partner;
- The management fee should be completely dissociated from the share value of the fund;
- The management fee for the investment period should be calculated based on the committed capital, and for the divestment period should be calculated based on the capital actually invested in the companies, subtracting write-offs and realized divestments;
- The availability of cash should not be considered for the management fee;
- The instruments of incorporation of the fund should include the method for calculating the management fee in case of extension of the investment period;
- If the fund is extended, the Limited Partners should also deliberate about the payment of the management fee during the period, which should be based on the budget for the fund that includes the budget for the General Partner to manage the fund;
- The instruments of incorporation of the fund should include the handling of the management fee if a key member of the team leaves without being replaced by a professional with similar profile approved by a governance body with the participation of all Limited Partners and within the period stipulated in the instruments of incorporation of the fund;

- The instruments of incorporation of the fund may provide for alterations in the management fee in case of specific events in order to adjust for the effective cost of the General Partner in the new situation.

PERFORMANCE FEE (CARRIED INTEREST)

The performance fee (carried interest) is the principal instrument for the alignment of interests between General Partners and Limited Partners. The interests of the General Partner should be primarily focused on the performance of the fund.

For General Partners to obtain a financial return as a function of the performance of the fund and for said return to be representative in relation to their total remuneration, some conditions should cumulatively occur: (i) investments with average returns above the hurdle rate; (ii) the right to a participation in the return of the fund (carried interest); and (iii) adequate management fee to handle the operational costs of the fund.

It is possible to establish differentiated ranges of performance fees based on higher returns of the fund, as well as the adoption of alternative mechanisms of distribution such as the catch-up, as long as these are properly stipulated in the instruments of incorporation of the fund.

MINIMUM EXPECTED CONTENT

The instruments of incorporation of the fund should indicate in detail the manner in which the performance fee (carried interest) is to be calculated and distributed during the life of the fund.

BEST PRACTICES

- The performance fee should only be paid when the General Partner returns to the Limited Partners an amount higher than the value invested in the fund corrected by the hurdle rate;
- The amount of the performance fee should be calculated periodically and the regulations of the fund should detail mechanisms for the devolution or clawback of eventual excess payments made.
- The performance fee should be a substantial part of the total remuneration of the General Partner;
- In the due diligence, the General Partner should present to the Limited Partners the cash flow projections of the fund containing all the revenues and expenditures, including a forecast for the performance fee, its participation in relation to the total revenue and its distribution;
- A significant part of the performance fee received by the General Partner should be allocated to the team responsible for the success of the fund;
- The performance rate payment to the General Partner should also be conditioned to the complete allocation of the capital committed to the fund or to the ending of the investment period, whichever occurs first;
- The hurdle rate of the fund should be compatible with the specificities of each fund, and should not be interpreted as a minimum return sought by the Limited Partners;
- Transparency should be observed in the calculations for payment of the performance fee, and the instruments of incorporation of the fund should indicate if it will occur before or after the payment of taxes.

COMMITMENT OF THE GENERAL PARTNER

The contribution of resources to the fund by the General Partner, which should be done at the same time as the other Limited Partners, constitutes another important interest alignment instrument with the Limited Partners. The capital gain from the General Partner's contribution, as fund investor, should be an important source of remuneration for the General Partner.

MINIMUM EXPECTED CONTENT

The amount or percentage of the capital to be committed by the General Partner and the manner in which it is to be contributed should be indicated in the instruments of incorporation of the fund.

BEST PRACTICES

- The contribution of the General Partner should be done in cash at the same time as the other Limited Partners and should not originate from income obtained from the management fee or reimbursement of expenses incurred into by the General Partner;
- The contribution of the General Partner should be representative in relation to the committed capital of the fund, taking into consideration the General Partner's financial capacity and preferably also made from the key members of the team;
- The General Partners should directly invest into the fund together with the other Limited Partners and not by co-investing in specific fund assets;
- While managing the fund, the General Partners should not transfer or lien their shares in order to guarantee a continuous alignment of interest with the Limited Partners.

FUND TERM

The duration of the fund should take into account the average estimated maturity period for the portfolio companies considering the sector of activity, strategy and development stage.

It is expected that there will not be a need for extending the fund period considering its potential impact on profitability. However, adverse situations may occur demanding specific extensions.

MINIMUM EXPECTED CONTENT

The instruments of incorporation of the fund should provide for the detailing of the following items concerning the duration of the fund:

- Details on the fund period, the investment and divestment periods;
- Rules to extend the fund period, the investment period and divestment period;
- Details of the conditions for the General Partner to raise another fund with similar objectives or with members of the same team.

BEST PRACTICES

- The time periods of the fund should be in line with its investment policy;
- During the due diligence process, the Limited Partners should observe the General Partner's investing rhythm in previous funds and their extensions;

- The extension of the investment period or of the fund period is not regarded as favorable, and its eventual deliberation should be preceded by a presentation by the General Partner about the extension impact on the fund's profitability and its deliberation should be of a strategic nature;
- The General Partner should seek liquidity options for the investments made from the moment of the structuring of the investment;
- In the event of divestment involving negotiation of an escrow account, this should not to exceed the life of the fund;
- The General Partner may not initiate raising another fund with similar objectives until the period of fund investments has finalized or a relevant percentage of the committed fund, to be defined in the instruments of incorporation, has been invested, whichever comes first.

OTHER REVENUES

All revenues received by the General Partner, their related entities or individual employees or representatives, resulting from managing the fund, make up the group of items that align the interests between General Partners and Limited Partners and should be accounted for in fund reports to the Limited Partners.

MINIMUM EXPECTED CONTENT

The instruments of incorporation of the fund should provide how to handle possible revenues received by the Fund Manager, their related entities or individual employees or representatives, from activities inherent to managing the fund.

BEST PRACTICES

- The revenues received by the Fund Manager, their related entities or individual employees or representatives, resulting from managing the fund should be reported to the Limited Partners and transferred entirely to the fund;
- The General Partner's long term strategy, as well as any new products, should be regularly reported to the Limited Partners so that they may evaluate the impact on the fund activities.

GOVERNANCE

The relationship between Limited Partners and General Partners consists of maintaining a good rapport among the stakeholders along the several years of the fund's operation. This understanding is established by regulations, contracts, practices, codes and guides recognized by the market and its success depends on the stakeholders' capacity to comply with what has been established so as to develop an atmosphere of trust.

It is also important that these management practices include mechanisms that enable the evaluation, both by Limited Partners and General Partners, of unforeseen situations during the life of the fund indicating the decision bodies and quorums by which such matters should be settled.

The venture capital and private equity industry also has great capacity to implement good management practices in the invested companies, as well as to adopt responsible social and environmental practices. Besides expanding the potential financial gain, these practices also enable to reduce the risks associated with this asset class.

The Limited Partners trust the General Partners with their resources and the success of this partnership guarantees the General Partner a greater potential for future fund raising and consequently long term sustainability.

TEAM

The General Partner should put together a compatible team, which adheres to the investment policy and the fund focus, and is experienced and capable of performing the activities needed.

The key team should be formed of professionals dedicated to venture capital and private equity fund management, who are responsible for strategic decisions regarding the fund and its performance. Evaluation of the key team quality is one of the most important factors when an investor considers potentially investing in a given fund.

Changes in the key team may significantly affect the fund's ability to execute the proposed investment policy. Therefore, the Limited Partners should be protected by contractual conditions.

MINIMUM EXPECTED CONTENT

The instruments of incorporation of the fund should provide for the following items about the team:

- Summary table indicating the key team members, time allocated during the investment and divestment periods and corresponding duties assigned and the activities involved;
- Time period for informing the Limited Partners in case of changes to the key men;
- Handling and term to replace team members;
- Handling and term for refusal by the Limited Partners of the proposed substitute;
- Management governance and quorums for deliberation of the replacement of the key man;
- Sanctions in the event of failure to comply with replacement terms.

BEST PRACTICES

- The fund management team should be compatible with the complexity of the investment, size of the fund, number of invested companies, type of management of the invested companies, qualification of key members and profile of each member according to each fund stage;
- The Limited Partners should be the first to be informed about any changes to the key team;
- When replacing a key member, the substitute qualifications should be equivalent to the person being replaced;
- A reasonable number of attempts to propose a substitute is recommended, allowing for a reasonable amount of time;
- In the case that the substitution is not resolved, or in relevant events related to the key men, the constitutive documents of the fund should outline mechanisms for the possibility of the suspension of the investment period, the firing of the General Partner or events that might lead to the early liquidation of the fund itself;
- A relevant portion of the performance fee (carried interest) should be destined to the fund management team as per contractual instrument, preferably by formalizing the individual allocation before starting the fund;
- This material should be deliberated in the case of corporate governance of a strategic nature

INVESTMENT POLICY

The fund investment policy allows the detailed understanding of its objectives, as well as its operating restrictions. It constitutes a relevant item in the process of deciding to make an investment.

MINIMUM EXPECTED CONTENT

The investment policy should be described in the instruments of incorporation of the fund and should contain, where applicable:

- Geographic and sectoral scope;
- Fund restrictions and limitations on investment;
- Profile of fund participation (majority/minority) in the companies;
- Model of fund management of the companies;
- Investing limits by company, sector, geography, among others;
- Desirable size of companies at the moment of the investment;
- Financial instruments that should be used (share participation, debentures, debt instruments among others);
- Observance of socio-environmental principles, among others.

BEST PRACTICES

- The fund investment policy should be carefully detailed so that the investor may build a portfolio of funds with the desired diversification but, at the same time, with flexibility enough to allow the General Partner to achieve the expected return within that set line of action.
- If, during the life of the fund, there is a need to change the investment policy, the General Partner should present the Limited Partners with the motivations for such alterations.
- All of the fund time periods should be compatible with its investment policy.

LIMITED PARTNERS RESPONSIBILITIES

The definition of the responsibilities and risks assumed by the Limited Partners contributes to provide security to the venture capital and private equity industry, thus facilitating the arrival of new Limited Partners.

MINIMUM EXPECTED CONTENT

- The instruments of incorporation of the fund should define the duties of the Limited Partners, among which are:
 - Manner of contributing their resources;
 - Participation in the decision making bodies of which they are members;
 - Confidentiality of obtained information;
 - Voicing decisions within the defined period of time;
 - Manner of resolution in case the investor does not take a decision within the defined period of time.

- In the event of suspension or completion of the investment period, the commitments previously undertaken by the fund should be honored (tranches in invested companies, payment of the portion of the management fee due to the Administrator and custody charges);
- The instruments of incorporation of the fund should not provide for unlimited investor responsibility.

BEST PRACTICES

- In relation to the fund, the Limited Partners should monitor, amongst other items: audit results, expenses, good compliance practices, team structure, conflicts of interests;
- The Limited Partner should base his conduct on good faith and the duty of diligence;
- The Limited Partner should monitor the development of new initiatives by the General Partner;
- The Limited Partner should point out potential conflicts and aid in their resolution;
- The Limited Partner should contribute with his own professional experience to monitor the fund and the decision making processes.

GENERAL PARTNER RESPONSABILITIES

The General Partner is conferred with the power to conduct fund operations and investments in accordance with the applicable law and instruments of incorporation of the fund, preserving a relationship of trust with the Limited Partners. It is up to the General Partner to comply with the constitutive documents of the Fund.

The General Partner is responsible for maximizing the Limited Partners' financial return by selecting the best investment opportunities and optimizing the fund expenses.

MINIMUM EXPECTED CONTENT

- The instruments of incorporation of the fund should define the duties of the General Partner, among which are:
 - To negotiate, on behalf of the fund, the necessary actions to fulfill the objectives of the fund, always accepting contracts signed by other parties in relation to the fund;
 - To protect and promote the interests of the fund with the invested companies by taking part of the general and extraordinary meetings of shareholders of the invested companies;
 - To provide reports, studies and analyses for monitoring the fund, as well as for decision making;
 - To keep the Limited Partners informed of all relevant facts pertaining to the fund.

BEST PRACTICES

- To add value to the invested companies;
- To implement good corporate management practices and socio-environmental responsibility in the invested companies;
- To guarantee transparency and agility in communication;
- To present information with quality, impartiality and a periodicity that enables the adequate monitoring of the fund by the Limited Partners;

- To submit to the Limited Partners any situation that may potentially constitute conflict of interests during the life of the fund, be it related to an invested company, the General Partner, a Limited Partner or other related parties;
- The corporate governance decisions made by the fund do not exempt the General Partners from complying with any of their obligations and responsibilities.

CHANGES IN THE FUND TERMS AND CONDITIONS

The main terms and the governance of the fund should be well debated before its start to avoid the need for recurrent alterations of the instruments of incorporation. However, considering the long term nature of this asset class, alterations may be necessary.

MINIMUM EXPECTED CONTENT

- The instruments of incorporation of the fund should specify the decision bodies, the matters and corresponding quorums for their eventual alterations.
- Some matters may require a qualified quorum, such as: (i) alteration of the fund period or investment period of the fund; (ii) destitution or substitution of the Administrator and/or General Partner and selection of a substitute; (iii) merger, incorporation, demerger or eventual liquidation of the fund; (iv) issuance and distribution of new shares; (v) alteration of the management and performance fees; (vi) alteration of the initial quorum and deliberation of decision taking bodies; (vii) alteration of the key team; and (viii) alteration of the investment policy.

BEST PRACTICES

- In the event of occurrence of situations not provided for by the instruments of incorporation, the General Partner should submit to the Limited Partners a solution proposal;
- The General Partner should put forward the motivations for eventual alterations of the incorporation documents of the fund;
- No Limited Partner may individually veto or approve any alterations to the instruments of incorporation of the fund.

FUND GOVERNANCE (MANAGEMENT BODIES)

The governance of the fund is also performed through its decision making body, to which its effective functioning depends on the precise definition of its duties and manner of operating.

MINIMUM EXPECTED CONTENT

- The instruments of incorporation of the fund should indicate the management bodies, composition and deliberating quorums, including but not limited to, strategic decision making bodies and operational nature bodies;

- The information received by the Limited Partners in the management bodies should be treated with confidentiality. The instruments of incorporation of the fund should stipulate the manner in which failure to comply with this condition is to be dealt with and the General Partner and/or Administrator should take the adequate measures.

BEST PRACTICES

- The Limited Partners, General Partners and other parties involved should maintain a high level of confidence in the efficiency of the fund management bodies;
- The Limited Partners should devote time and attention to the bodies by which they are convened;
- The deliberating quorums should be compatible with the importance of the corresponding matters.

CONFLICT OF INTERESTS

Adequate handling of situations of potential conflict of interests contributes to greater legal security in operating the fund. Any decisions taken in a situation of conflict of interests may cause damage to the fund, the General Partner and the Limited Partners.

A deliberation taken as a result from voting potentially in conflict of interest with the fund may be declared void and even subject to intervention from regulating and legal bodies.

MINIMUM EXPECTED CONTENT

- The documents of incorporation of the fund should provide for potential situations of conflict of interests and procedures and quorums for their resolution.
- The resolution of potential conflicts of interests should be taken by a body in which all Limited Partners participate.

BEST PRACTICES

- The General Partner, Limited Partner and related parties should indicate situations in which there are potential conflict of interests;
- The stating of the existence of a potential conflict of interest should be deliberated at a meeting of strategic nature.
- The party that is potentially in conflict should abstain from all deliberating stages on the relevant matter, including in the discussions with invested companies.

ANNEXES

ANNEX I

INVESTMENT AND DIVESTMENT MEMORANDUM

This type of information is relevant to the members of the bodies operating the fund and, currently in Brazil, might be only the responsibility of the General Partner or may include the participation of the Limited Partners.

The contents of the investment and divestment proposals sent by the General Partner should provide the needed contribution for the decision making by the operating bodies. Furthermore, the standardization of minimum information should allow a comparative analysis of different transactions enabling better management of the portfolio.

The memorandum sent by the General Partner should describe in depth the operation (investment and divestment memoranda) and should have attached a financial model detailing its premises.

After the finalizing of each investment or divestment the Fund manager should send a resume of the operation and the eventual changes in relation to the initial proposal made, including the final shareholder position, with a description of the shareholders and their controllers in the corporate sense and bringing to bear the publicly declared or registered information.

With regard to the material sent by the General Partners, it is suggested that the memoranda cover at least the items defined in the following models.

BEST PRACTICES

- Organize visits by the members of the operating bodies to the company to be invested in or to invite the company to make a presentation in person to said members. In such cases, we suggest that the General Partner explains where the current negotiation stands with the company and sets the limits to questions to avoid any interference in the negotiation;
- Send, upon request, the financial model containing records of the calculations in the cells.

INVESTMENT MEMORANDUM

1. EXECUTIVE SUMMARY: GENERAL DESCRIPTION OF THE BUSINESS, BRIEFLY STATING THE FOLLOWING ITEMS:

- 1.1. The transaction
- 1.2. The sector
- 1.3. The company
- 1.4. Expected return and exit
- 1.5. Minimum management conditions
- 1.6. Framework of the proposal in accordance with the instruments of incorporation of the fund
- 1.7. Risks and mitigating factors

2. MARKET

- 2.1. History
- 2.2. Trends
- 2.3. Competition

3. COMPANY

- 3.1. History
- 3.2. Shareholder composition: description of the shareholders and their controllers, in the case of legal entity, including obtaining public and/or police record information to ascertain the reputation of the potential partners.
- 3.3. Activity
- 3.4. Business plan
 - 3.4.1. Competitive strategy, differences in relation to the competition and positioning in the sector
 - 3.4.2. Target market
 - 3.4.3. Business model
 - 3.4.4. Clients and suppliers: current and potential
- 3.5. Analysis of the organizational and administrative structure vis a vis the business plan
- 3.6. Contingencies – labor, environment, tax and other liabilities
- 3.7. Human resources: experience of the executive team and policies of remuneration, retention and alignment of interests, existing or to be implemented
- 3.8. Socio-environmental responsibility

4. ECONOMIC-FINANCIAL ANALYSIS: NOTWITHSTANDING THE FINANCIAL MODEL SENT BY THE GENERAL PARTNER, THE INVESTMENT REPORT SHOULD CONTAIN THE DESCRIPTIVE ANALYSIS OF THE FOLLOWING ITEMS:

- 4.1. Retrospective analysis of financial statements (if applicable): historical evolution of the main indicators
- 4.2. Financial projections: detailing of premises and growth rates
 - 4.2.1. Composition of the result: structure of revenues, costs and expenses
 - 4.2.2. Uses and sources
 - 4.2.3. Capital structure: premises and characteristics of leverage (if applicable)
 - 4.2.4. Main indicators: evolution and comparison with the competition
- 4.3. Sensitivity analysis: simulations with the main variables
- 4.4. Valuation with substantiated premises of the adopted methodology(ies)
- 4.5. Expected return of the fund: scenarios, IRR and multiple of the invested capital

5. STRUCTURE OF THE OPERATION

5.1. Investment structure and economic rights

5.1.1 The final shareholder structure; a description of the shareholders and their controllers in a corporate sense.

5.2. Negotiated partnership rights (alterations of partnership, management and alignment of interests with the investment)

5.3. General Partner strategy: manner in which the General Partner intends to add value to the business (economic-financial elements)

5.4. Substantiation of exit strategies: manner and detailing of their premises

6. Risks and mitigating factors

DIVESTMENT MEMORANDUM

1. EXECUTIVE SUMMARY: GENERAL DESCRIPTION OF THE BUSINESS, BRIEFLY DETAILING THE FOLLOWING ITEMS:

1.1. The negotiated transaction and the valuation according to the General Partner

1.2. Updating of the original investment thesis

1.2.1. Of the sector

1.2.2. Of the company

1.3. Return to the fund, for the Limited Partners, and analysis of that return against the portfolio strategy adopted by the fund

1.4. Value generated by the General Partner action in the company

2. ECONOMIC-FINANCIAL ANALYSIS: NOTWITHSTANDING THE FINANCIAL MODEL SENT BY THE GENERAL PARTNER, THE DIVESTMENT REPORT SHOULD CONTAIN THE DESCRIPTIVE ANALYSIS OF THE FOLLOWING ITEMS:

2.1. Retrospective analysis of the financial statements: historical evolution of the main indicators in comparison with the projections at the time of the investment in the company

2.2. Financial projections: detailing of premises and growth rates

2.2.1. Composition of the result: structure of revenues, costs and expenses

2.2.3. Capital structure: premises and characteristics of leverage (if applicable)

2.2.4. Main indicators: evolution and comparison with the competition

2.3. Valuation with substantiated premises of the adopted methodology(ies)

2.4. Analysis of eventual variations between the valuation calculated by the General Partner and the negotiated transaction

2.5. Analysis of the value generated by the General Partner activities in the company. Analysis of eventual divergences from the original investment thesis

3. STRUCTURE OF THE OPERATION

3.1. Divestment structure and economic rights

3.2. Analysis of the return to the fund compared with the portfolio strategy adopted for the fund

3.3. Projected profitability for the remaining assets of the fund portfolio and for the fund as a whole

ANNEX II

MONITORING REPORTS

The General Partner should keep information systems organized and updated about the fund and the invested companies. Such systems help to monitor the fund, support the decision making and facilitate communication with the Limited Partners.

Having updated and accessible information about the fund and the invested companies is also of paramount importance to the Limited Partners, especially in the present context, when most Limited Partners rely on small teams and have a diversified portfolio to monitor. The more accessible and objective the information, the better the rapport between the Limited Partners and the General Partner will be. In addition, more sophisticated controls should contribute to an active management of a portfolio of funds, in which would be possible, for instance, to analyze sector exposure, the relative yield to the vintage of the fund, amongst other relevant indicators.

Thus, regarding accountability and monitoring of the invested companies, a set of information should complement the accounting statements periodically sent by the Administrator.

The instruments of incorporation of the fund should provide for:

- Periodic meetings to monitor the portfolio;
- Delivery of reports, at least on a quarterly basis, about the situation of the fund and the invested companies;
- The possibility of additional information requests, at any given time, about the fund and the invested companies;
- All Limited Partners having access to the same information;
- Annual meetings to present the evaluation of the fund assets, detailing eventual changes in the profit expectation on the assets and the divestment manner in light of the previously defined strategy kept along the whole monitoring. In the event the Limited Partners so wish, the General Partner may hire an outside agent to complete an independent valuation and charge it to the fund.

BEST PRACTICES

- Annual meetings between the Limited Partners and the management team of the invested companies to obtain feedback about the strategy, results, budget and General Partner contribution to the business;
- Annual meetings to debate portfolio re-evaluation and profit expectations considering the previously defined methodology kept during the re-evaluations;
- Annual meetings with the fund auditors;
- Availability of website with history of all presentations; reports; financial models; meeting minutes; bulletins; newspaper reports about the invested companies, the fund and the General Partner; the detailing of expenses incurred into; records of the calculations of the management fee, among others, for easy access to and viewing of the information by the Limited Partners.

MONITORING REPORT - INFORMATION TYPE AND FREQUENCY				
Section	Topic	Monthly	Quarterly	Annual
Portfolio Position / Introduction	Message from the General Partner - General Partner analysis of the fund and invested companies performance during the period		X	X
	Information on shares (number of shares and value per share)	X	X	X
	History of payments to the fund - date and amounts		X	X
	History of distributions of the fund to the Limited Partners (dates, amounts and type - amortization, income, dividends, JSCP, among others) and whether or not these distributions are callable by the General Partner;		X	X
	History of distributions of the fund to the General Partner (dates, amount and type - management fee, carried interest, expense reimbursement, among others);		X	X
	Exhibit of the Net Asset Value of the fund based on the last portfolio valuation and net of unrealized performance fees/carried interest, for both the Limited Partners and the General Partner.		X	X
	Annual audited financial statements with notes that should include: -The fund's legal formation date - The total Limited Partners' capital commitment and the total General Partner capital commitment - Description of overall fund strategy, including geographic focus, industry/sector focus, and investment stage focus (e.g. seed stage, mid cap buyouts)			X
	Fund portfolio - participation of the fund in the invested companies	X	X	X
	History of investments, amortizations and divestments	X	X	X
	Value of the capital paid in by the Limited Partners brought up to date by the fund benchmark and by the distributions of results (amortizations, distribution of dividends and JSCP, among others)	X	X	X
	Summary of the fund indicating committed capital, paid in, redeemed, portfolio residual value, multiple cash-on-cash and net IRR; "			X
	Capital balance forecast to be paid in to the fund (investments, follow on, charges);		X	X
	History of the meetings held (operational and strategic)			X
	History of visits to the invested companies			X
	Alterations in operational processes, team retention policy and adhesion to codes of internal conduct			X
	Details of the fund expenses, including expenses with administrative formalities			X
Monitoring of the Invested Companies	Message of the invested companies executives			X
	Description of the use of the money paid in			X
	Perspectives of the target sector of the fund, main highlights of the period and last relevant transactions			X
	Main performance indicators of the invested companies and the sector (KPIs);		X	X
	Advances and retreats in the period		X	X
	Income Statement, balance sheet and cash flows of the period		X	X
	Financial statements of the invested companies with independent auditors opinion			X
	Perspectives of divestment			X
	Re-evaluation of the invested companies, indicating the original cash flow, revised and accomplished			X
	Contribution of the General Partner to the business (management bodies, implementation of advice, professionalization of management)			X
	Description of the relationship with entrepreneurs (sharing of strategic vision, availability of information by the company)			X
	Evaluation of the company executives			X
	Alterations of the strategy compared with the plan proposed in the investment or in the last report		X	X
	Innovation indicators (new processes or innovative products)			X
	Actions of socio-environmental responsibility of the companies and the fund			X
	"Social" indicators of the company			X
Perspectives of the Fund	Remuneration of executives and members of the board of directors and remuneration program			X
	Evolution of the collection (in case of additional closure)		X	X
	Evolution of the pipeline - business opportunities		X	X
	Forecast of capital calls or amortizations		X	X
	Forecast of the balance of committed assets of the fund to be paid up (charges, investments and follow-on)		X	X
	Valuation of the fund portfolio and expected profitability (management fair market value)			X
	Schedule of events (next period)			X



Advent International

GLOBAL PRIVATE EQUITY

Founded in 1984, Advent International is one of the largest and most experienced global private equity firms. With offices on four continents, we have established a globally integrated team of over 180 investment professionals, focused on buyouts and growth equity investments in five core sectors. Since initiating our private equity strategy in 1989, we have invested \$27 billion in over 290 companies across 40 countries, and as of December 31, 2014, managed \$33 billion in assets. Today, as we did 30 years ago, we seek to invest in well-positioned companies and partner with management teams to create value through sustained revenue and earnings growth.



BTG Pactual is an innovative global financial company, with Brazilian roots, that operates in the markets of Investment Banking, Wealth Management and Asset Management. It offers advisory services in M&A, wealth planning, loans and financing, as well as investment solutions and market analyses. Based in São Paulo and founded in 1983, the Bank has R\$218.3bn in assets, 3,200 employees worldwide and offices in over 20 countries.

THE CARLYLE GROUP

The Carlyle Group is a global alternative asset manager with \$194 billion of assets under management across 128 funds and 142 fund of funds vehicles as of December 31, 2014. Carlyle's purpose is to invest wisely and create value on behalf of its investors, many of whom are public pensions. Carlyle invests across four segments - Corporate Private Equity, Real Assets, Global Market Strategies and Investment Solutions - in Africa, Asia, Australia, Europe, the Middle East, North America and South America. Carlyle has expertise in various industries, including: aerospace, defense & government services, consumer & retail, energy, financial services, healthcare, industrial, real estate, technology & business services, telecommunications & media and transportation. The Carlyle Group employs more than 1,650 people in 40 offices across six continents.



Gávea Investimentos is an alternative investment management firm regulated by the CVM with approximately US\$6 billion in assets under management as of February 2015. It was founded in August 2003 by Arminio Fraga and Luiz Henrique Fraga, counting with four lines of business: private equity funds, hedge funds, equity funds and real estate funds. Gávea Investimentos has offices in Rio de Janeiro and São Paulo, with a staff of 142.

Kinea

uma empresa



Kinea Private Equity manages R\$1.4 bln in assets and has made 5 investments since 2009 (Grupo Multi, Unidas, Delfin Group, ABC Group and Lojas Avenida). The firm is focused on taking minority stakes in companies acting exclusively in Brazil. The seniors members of Kinea team have been working together for more than 15 years since they started their private equity activities at AIG in 2000.

WARBURG PINCUS

Warburg Pincus L.L.C. is a leading global private equity firm focused on growth investing. The firm has more than \$35 billion in assets under management. The firm's active portfolio of more than 120 companies is highly diversified by stage, sector and geography. Warburg Pincus is an experienced partner to management teams seeking to build durable companies with sustainable value. Founded in 1966, Warburg Pincus has raised 14 private equity funds, which have invested more than \$50 billion in over 720 companies in more than 35 countries. The firm is headquartered in New York with offices in Amsterdam, Beijing, Frankfurt, Hong Kong, London, Luxembourg, Mumbai, Mauritius, San Francisco, São Paulo and Shanghai.



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.

As a representative entity of the venture capital industry, ABVCAP's mission defends the interests of industry players together with public and private institutions, local and foreign, pursuing improve the public policies favorable to the promotion of these investments in Brazil.

Beside this, growing and enhancing several fronts of long-term investment in the country, in line with international practice, when applicable, highlights ABVCAP's mission, its strategic integration in capital market as disseminator and recycling of assets/companies on stock exchanges.

ABVCAP's activities aim to facilitate the relationship between global and local members of the long-term investment community, providing an environment that favors debate and fosters the strengthening of relationships.



Brazilian Private Equity &
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