INVESTOR PROFILE AND RETURN IN PRIVATE EQUITY AND VENTURE CAPITAL

HIGHLIGHTS

- Foreign investors aren't the largest investor in private equity and venture capital in Brazil anymore. They were 84% of the committed capital between 1994-1999 and only 20% in the last three years. This change is due to poor performance. The average USD IRR of funds invested by foreigners between the 2008-2014 vintages was 2.9%, while Global Benchmark was 16.9% in the same period. However, after 2015 the average USD IRR was 28%, above the benchmark.

- Families and family offices became the main investor in Brazil with 70% of the committed capital. Venture capital is the main beneficiary, where families are the majority investors since 2010 and reached 73% of committed capital in the last three years. The performance of families is superior to foreign investors and the difference is accentuated from 2015 onwards. The main reason for the superior performance is the entry of families in venture capital funds that outperformed private equity funds in the last 10 years, especially in the last five years with an USD IRR of 35%.

- Pension funds became relevant investors in the 2000s, but the combination of low returns and an investigation about frauds in their private equity allocation, which halted investments after 2016 and reduced the funds' share to just 1% of the total committed capital. Pension funds took a small advantage of the recent surge of venture capital, and the results improved after 2012. They had an USD (BRL) IRR of 2.7% (7.3%) since 2000.

- Development Financial Institutions (DFIs) were the main venture capital investors in Brazil and had an important role in establishing managers and fostering the asset class. Although less relevant, they still participate in 10% of the country's venture capital funds and 4% of private equity funds. DFIs had the worst performance among all investors, as expected, with an USD (BRL) IRR of -3.6% (1.7%) since 2000.

INVESTOR PROFILE THROUGH BRAZILIAN PRIVATE EQUITY CYCLES

Economic stabilization and privatization of government assets were the catalysts of long-term investment in Brazil. The first cycle (1994-1999) happens with foreign GPs and investors providing 84% of the committed capital (Figure 1). Investment in venture capital was incipient and GPs raised capital with DFIs (67%) and foreign investors (33%) (Figure 2).

The second cycle (2000-2007) had a rise in committed capital in the industry, favorable commodities cycle, and the increase in the exposure of pension funds in private equity and venture capital. Foreign investors were 63% of private equity capital and 10% of venture capital. The highlight is the return of foreign investors who achieved USD (BRL) IRR of 34% (25%) between 2000-2002 and 10% (14%) between 2003-2007, while the global benchmark was 12% for the period (Figures 3 and 4). Families were 19% of the committed capital in private equity and 15% in venture capital. Families had an USD (BRL) IRR of -18% (-31%) between 2000-2002 and 24% (12%) between 2003-2007. Pension funds and DFIs had a BRL IRR of -1% during this period.

The third cycle (2008-2016) is the term that begins with Brazil sovereign credit rating achieving investment grade and ends with economic recession, Brazil losing investment grade, a president impeached and an investigation about irregularities in the private equity investments of pension funds (Greenfield Operation). Local investors reached 62% of investments in the sector (families, 37% of the total; pension funds, 17%; and DFIs, 8%). Families became the main source of funding to venture capital (53% of the total), while foreigners remained the largest private equity investors (48% of the total). The exchange rate fluctuated during the period with years of exchange rate appreciation between 2007-2011 and exchange rate depreciation between 2012-2016, which affected the USD IRR in most of the sample. Funds invested by foreign investors had an average USD IRR of 9.5%, while the global benchmark was 17%. Families performed better in the period with an USD IRR of 14%. Venture capital investment explain the better return of families, where private equity funds were outperformed by venture capital funds.

The last three years consolidated families as the main investors in private equity and venture capital in Brazil with 70% of the committed capital. Foreign investors have reduced their importance to just 20% of the total committed capital. DFIs had a 9% share and pension funds made up just 1% of committed capital. Once again, currency devaluation impacted the return, families had a BRL IRR of 70% and USD IRR of 43% in the 2017 vintage. Venture capital is through a virtuous cycle since 2011 and families are the biggest winners up to now. Foreign investors had an USD IRR better than the global benchmark after 2015, probably this is a survival bias from investors who select better managers.

Figure 1. **Investor profile and committed capital by vintage**

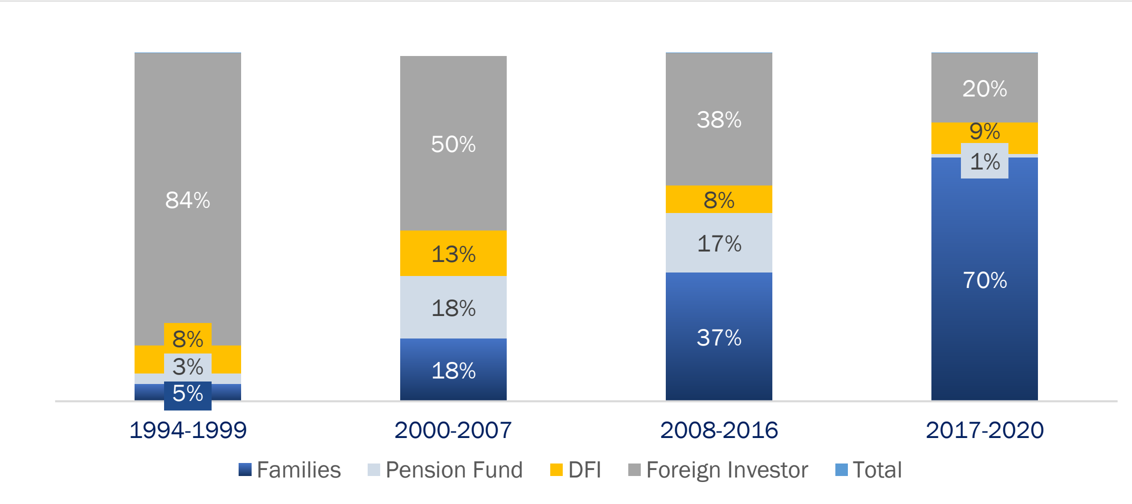

Figure 2. **Investor profile and committed capital by asset class**

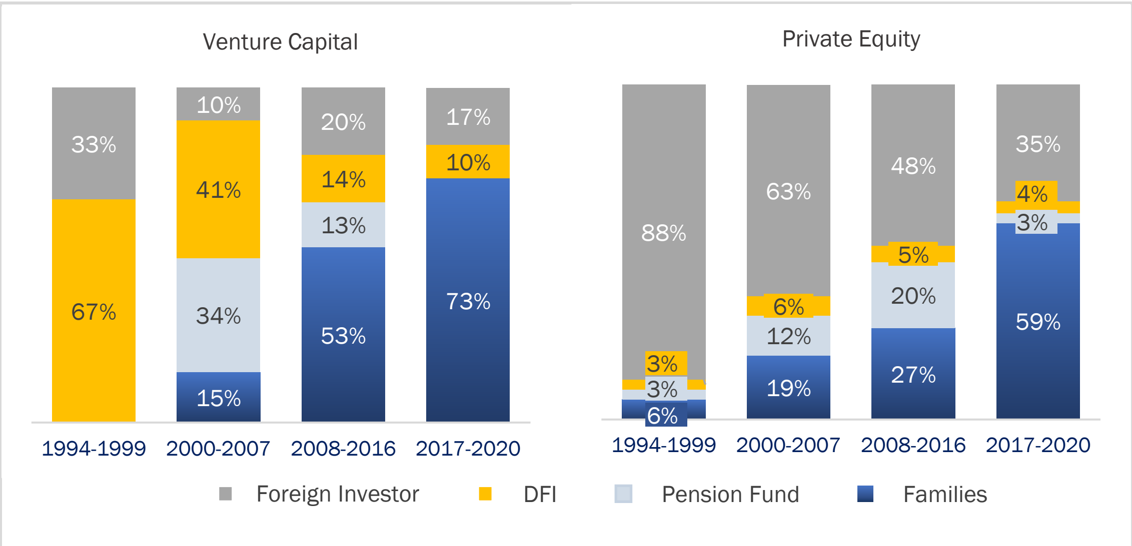

Figure 3. **Private equity and venture capital BRL IRR by investor profile and vintage**

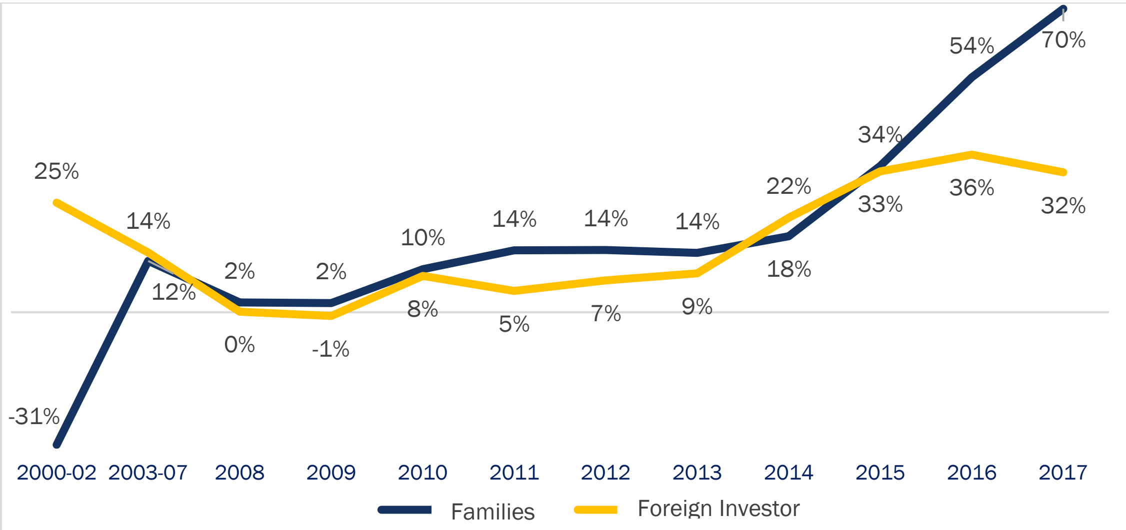

Figure 4. **Private equity and venture capital USD IRR by investor profile and vintage**

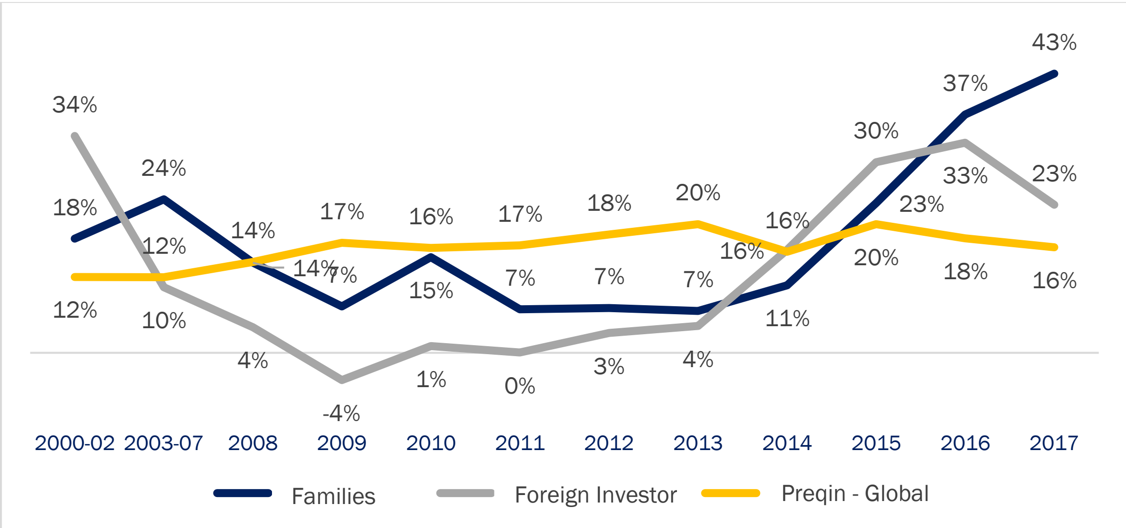

Figure 5. **Private equity and venture capital BRL IRR by investor profile and vintage**