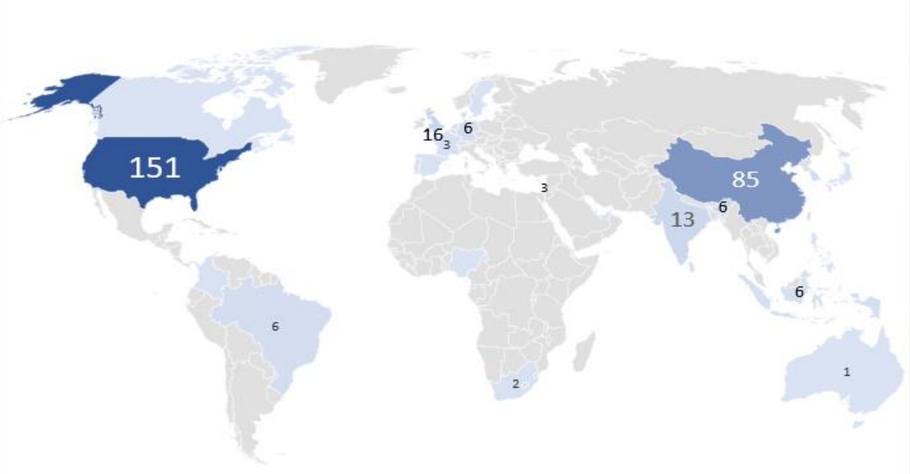
AN OVERVIEW OF THE VENTURE CAPITAL INDUSTRY

Silicon Valley has, for a long time, been the mecca for Venture Capital investment. That's where the action has been, where the greatest number of start-ups and Unicorns are. Moreover, within the Valley, the only way to play it right is to invest with a handful of very successful Venture Capital managers, the Golden Circle as they say.

Numbers have corroborated with general people's beliefs. For that, we use Unicorns as a proxy for a successful investment. We know not all Unicorns are created equal, as they vary in their entry price, capital burn and final value. But still, is a widely used metric for success. Currently, there are 350 Unicorns in the planet, 25% of which were created within a 200 mile radius of the Valley.

Distribution of Unicorns per Countries [1]



Some VC managers have a special gift for picking the right companies. Because of their talent or their reputation, which in turn, attracts the best companies, there is a clear concentration of Unicorns in the hands of a select few.

Top unicorn investors making first deal at Series A or earlier Rounds [2]	
SV Angel	18
Accel	15
Khosla Ventures	11
Sequoia Capital	11
Andreessen Horowitz	10
David Sacks	10

1 - Source: CB Insights. As of Jan – 2019.
2 - Source: Pitchbook 2018 Unicorn Report.

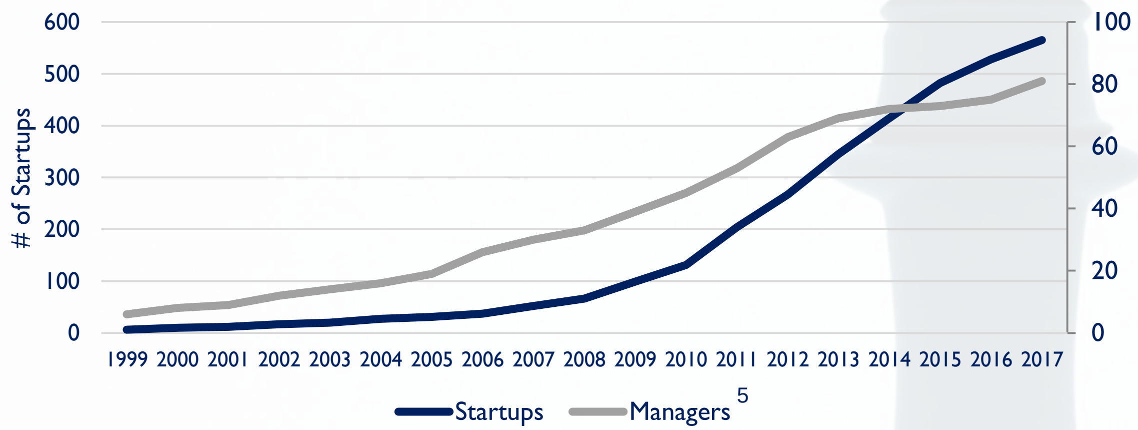
www.spectrainvest.com
+55 11 3588 1177
info@spectrainvest.com

This virtuous cycle has led to the widespread knowledge that, whereas the median return in VC, an IRR of 11.23% in USD is mediocre, the return of a select few, the Golden Circle, is consistently outstanding, representing an IRR of 21% in USD.[3]

Latin America has remained on the fringes of the Venture Capital market. Until recently, the space was the sole domain of Development Financial Institutions that had more of a help-the-planet mindset than a focus on returns.

However, since 2008, the space has seen an interesting surge both in the number of managers and startups.

Managers and Startups Evolution in Latin America[4]



With a greater number of start ups, Unicorns started to emerge. Latam now counts 7 Unicorns for the region. It is a far cry from global levels but is still quite relevant locally. An ever greater number of start-ups are lining up to become Unicorns within the next year or so.

Latam's Unicorn evolution

Getting back to Investment returns, an analysis of the supply of good investment opportunities tells only half the story. To get a full assessment of the attractiveness of a market, one needs also to look at demand for those opportunities. In other words, competition is almost as important as the opportunity set. In other words, regardless of the number of attractive investment opportunities, fierce competition for those assets could erode any potential outsized gains.

3 – Source: Cambridge Associates US Venture Capital Index and Selected Benchmark Statistics.
4 – Source: Spectra – Insper Database.
5 – Accumulated managers, not discounting the inactives.

One of the good things about being a dog region is that not that many people are looking to invest there. In a region with 639m inhabitants, 170m of which considered to be middle class and with $5.6 trillion GDP(6) there are roughly VC institutional 72 managers in operation. Out of which, only 6 of them have more than $100m under management. This blatant lack of competition has allowed for a better hit ratio among the best VCs in the region to what is seen by the best VCs globally.

Distribution of Unicorns per Managers*

Ex- Brasil	# of Unicorns	# of Investments	Hit Ratio
SV Angel	21	863	2.4%
Sequoia Capital	21	1,230	1.7%
Andreessen Horowitz	21	678	3.1%
Khosla Ventures	18	632	2.8%
Accel	14	1,270	1.1%
Average			***2.2%***
Brazil			
Kaszek	3	55	5.5%
Monashees	3	85	3.5%
Valor	2	23	8.7%
RPeV	2	42	4.8%
Average			***5.6%***

*According to public information (websites and Crunchbase)

Amazingly enough, local VC managers have had a better hit ratio than some of the best VCs in the Valley. On average, the top 4 managers locally have had a 5.6% hit ratio, whereas the top 5 in the US have a 2.2% ratio. We believe this difference to be quite significant, especially because we are comparing local managers that have little expertise in the global arena with what is considered to be the *crème de la crème* of VC investing.

A lower opportunity set seems to have been more than compensated by lack of competition, leading to higher expected returns (assuming Unicorns as a proxy). The fact that Latin America doesn't have a sizeable army of engineers as posed by Doug Leone (link) as his reason not to invest here, or that there is relatively few groundbreaking deep tech innovation emerging from the region has not deterred local managers from having quite substantial hit ratios leading to expected outsized returns.

In our search for investment opportunities in a broader sense, not only restricted to the VC space, we weight not only the supply (size of the opportunity set) but also the demand (amount of competition) in our search for outsized investment returns.

6 – Source: The World Bank IBRD IDA. As of December 2018.

Thank You

Rua Amauri, 255 – 4th Floor
01448-901 São Paulo SP Brazil

Phone: +55 11 3588-1177
Ricardo Kanitz: +55 11 98262-1199
Renato Abissamra: +55 11 98685-0410

ricardo.kanitz@spectrainvest.com
renato.abissamra@spectrainvest.com