

## OPERATING PARTNERS IN BRAZIL

Andrea Maria Accioly Fonseca Minardi (Insper)

Humberto Gallucci (Spectra)

Natasha La Marca (Heidrick & Struggles)

In the traditional model, *investment partners* manage all stages of the investment cycle. Operating Partners add a layer of specialization focused on enhancing value within portfolio companies or during specific phases of the investment. They work closely with the management teams of these companies to define and implement strategies aimed at growth and efficiency. The growing demand for illiquid assets since 2008—when assets under management (AUM) reached \$12 trillion in 2023<sup>1</sup>—has increased transaction complexity. As a result, many fund managers have incorporated Operating Partners into their organizational structures to provide more detailed and specialized management, ultimately aiming to maximize investment value.

Operating Partners can assume various roles, primarily as *industry advisors* or *value creators*, with the latter role experiencing the most growth. Besides traditional *Buyout* managers who have always included OPs in their structure, *Growth* managers are also now seeking these professionals. A *value creation* OP is typically a specialist who works with the management team of an invested company to develop and execute action plans focused on growth and efficiency. They may also join the company's board of directors to help oversee and guide strategic initiatives. In contrast, *industry advisors* are usually successful executives who leverage their experience and network to support investments. They offer strategic advice and can assist in fundraising efforts. The diverse roles of Operating Partners reflect the evolving and complex nature of the private equity sector, adapting to the unique needs of each fund and market.

This report, developed in partnership with Insper, Spectra, and Heidrick & Struggles, aims to understand the role of *Operating Partners* within Private Equity firms operating in Brazil, as well as the compensation and incentive structures. To achieve this, nineteen local and international firms of assorted sizes were interviewed. Together, these firms manage over \$350 billion in assets under management (AUM).

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<sup>1</sup> PWC, 2014. Global M&A Trends in Private Capital: 2024 Outlook. Available at: <https://www.pwc.com/gx/en/services/deals/trends/private-capital.html>

## HIGHLIGHTS

- The main roles of an Operating Partner are *value creation* and *industry advisor*. Among the interviewed firms, 42% have OPs fulfilling both roles, 10% have OPs only in the *industry advisor* role, and 32% focus exclusively on *value creation*.
- The most common pre-deal functions are participating in due diligence and bringing deal flow to the firm, followed by investment analysis.
- The most common post-deal functions are participating in the board of directors and monitoring, followed by holding an executive position in the invested company.
- The fund or firm provides compensation during the pre-deal phase, while the invested company typically manages post-deal compensation.
- The average annual fixed compensation is R\$ 690,000 (median of R\$ 480,000). Foreign firms offer an average annual fixed compensation of R\$ 1,344,000, while local funds offer an average of R\$ 420,000.
- In most firms (89%), OPs receive a combination of a fixed salary with bonuses or carry, or both.
- The number of OPs varies significantly among firms. While having only one OP is more common, some firms have up to twelve. The number of OPs does not depend on the size of the firm or whether it is local or international.
- The most valued experiences when hiring an OP are having been a C-Level executive, followed by consulting experience.
- Only 30% of the interviewed firms hire external consultants to support the work of the OP.

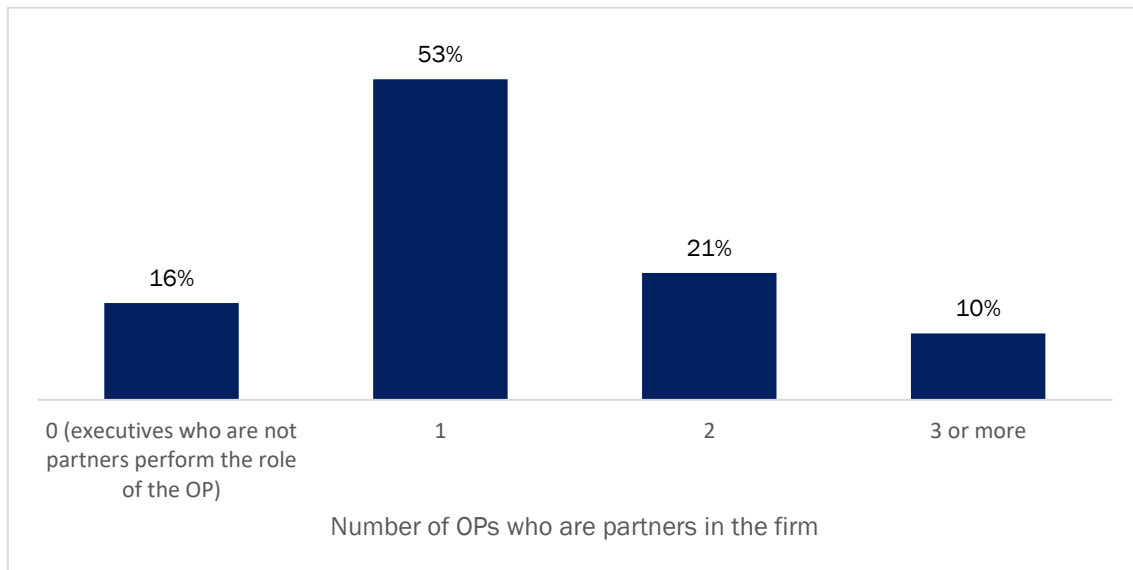
## DATA SET

We approached 39 Private Equity firms, but only 19 were interviewed – those that had Operating Partners in their organizational structure. The responding firms collectively manage assets exceeding \$350 billion, with the smallest managing \$200 million and the largest managing \$220 billion. Most of the firms are locally based, with 3 being foreign. The local firms have AUM of less than \$50 billion, and 13 out of the 16 interviewed have AUM of \$1 billion or less. The three international firms have AUM ranging from \$20 billion to \$220 billion.

## NUMBER OF OPERATING PARTNERS PER FIRM

The number of Operating Partners varies widely among the interviewed firms, regardless of firm size or whether they are local or international. Most of the firms (84%) have at least one Operating Partner in their organizational structure, while three firms have executives performing operational roles but do not have any partners (Figure 1). One firm has 12 Operating Partners, although the most common number is one per firm. No clear relationship was observed between the number of Operating Partners and the firm's assets under management, nor with its origin. For example, there are foreign firms with AUM exceeding \$50 billion that do not have any Operating Partners, and the firm with more than 12 Operating Partners has approximately \$1 billion in AUM.

Figure 1. Number of Operating Partners who are partners by firm



## ROLES OF OPERATING PARTNERS

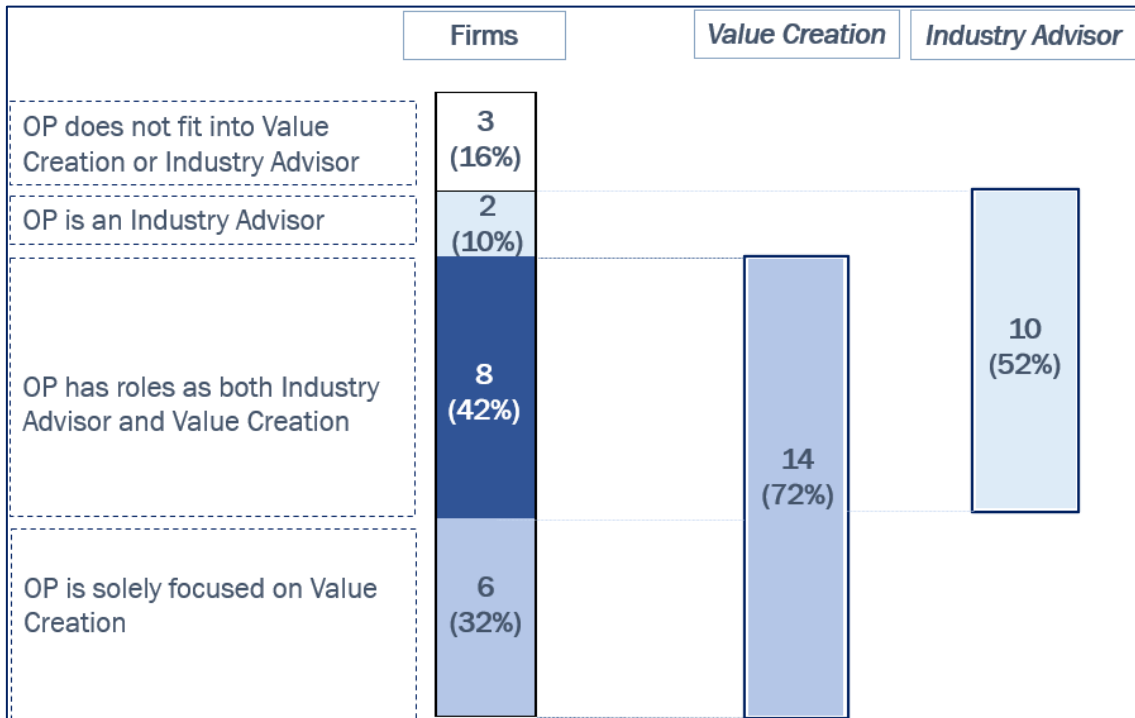
The primary roles of an Operating Partner are *industry advisor* and *value creation*. *Industry advisors* provide critical strategic insights and guidance based on their sector expertise. Professionals involved in *value creation* use their experience to drive growth and enhance the operational performance of portfolio companies. Both roles may require engagement with the invested companies both before and after the investment (pre-deal and post-deal).

In Brazil, due to economic volatility and high interest rates, it has never been possible to leverage acquisitions in Private Equity significantly through debt. As a result, firms operating in the country have always had to take a more active role in board participation and monitoring than their international counterparts, and value creation has consistently been an important source of generating returns. Among the firms interviewed, the vast majority (74%) have OPs performing the role of value creation (Figure 2). More than half of the firms (52%) have OPs acting as industry advisors, with 42% having OPs performing both roles. Lastly, 15% of the firms did not classify the role of the OP in these categories. There is a variety of ways to combine these two roles, which can be highly specific to each fund and even to each deal. A notable percentage—30% of the sample—use consultants to support OPs in specific situations.

All the interviewed firms had OPs involved with the invested companies in the post-deal phase, and except for two, also in the pre-deal phase. Figure 3 illustrates the roles performed by OPs before making investments and the percentage of firms where OPs have these roles, while Figure 4 shows the roles in the post-deal phase.

The most common pre-deal functions are participating in due diligence (68% of respondents) and generating deal flow (58%), with 47% of respondents indicating that OPs perform both functions. In 47% of cases, the OP participates in investment analysis, and 21% engage in networking. Private Equity funds have a finite lifespan, which means they need to create value for the invested company during the time it remains in their portfolio—typically around 3 to 5 years. Under time pressure, it is crucial to have already aligned how the company will be operated with the management team before signing the shareholder agreement, and OPs can greatly assist the investment team in refining the value creation thesis. During due diligence, they can also help identify risks and opportunities and define action plans to be implemented post-deal.

Figure 2. Roles of OPs in the interviewed firms



In the post-deal phase, more than half of the firms report that OPs participate in the board of directors (53%) and have monitoring roles (53%). In 21% of the firms, OPs hold the position of chairman of the board, and in 11% of the firms, they participate in specific committees and projects. In 53% of the firms, OPs engage in more passive monitoring of the invested company without holding executive positions, although they may have direct operational involvement in the invested companies. In 42% of cases, OPs assume executive roles, typically at the board level. The work of the OP can be supported by external consultants, a practice observed in 30% of the firms.

Figure 3. Role of Operating Partners before the fund makes the investment

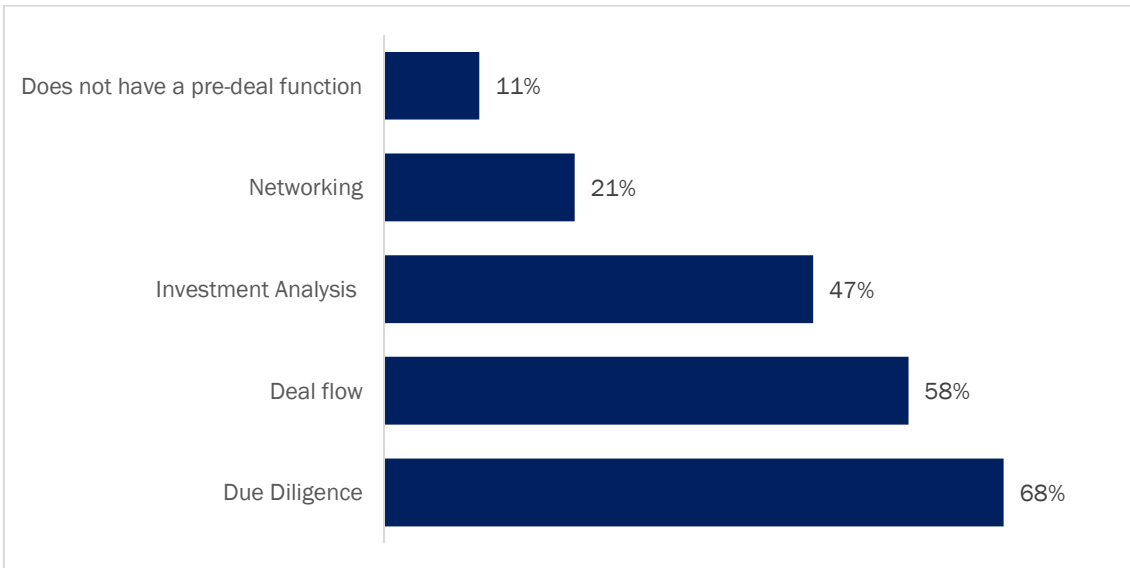
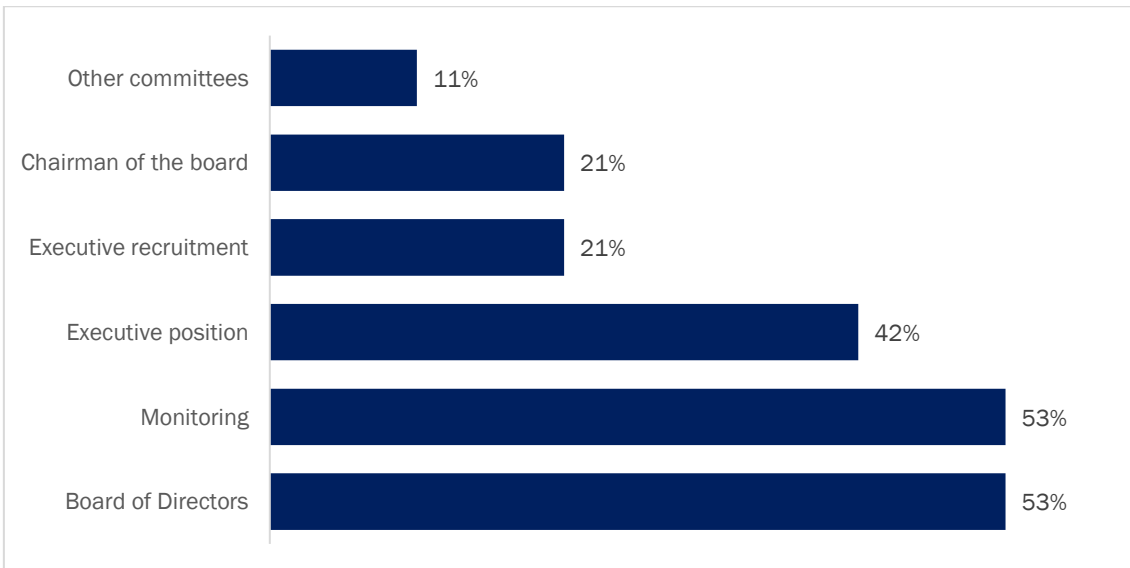


Figure 4. Role of Operating Partners after the fund makes the investment



## COMPESATION STRUCTURE

The compensation for Operating Partners is divided into pre-deal and post-deal phases. During the pre-deal phase, it is most common for the compensation to be paid by the fund or firm. In the post-deal phase, since OPs often take on roles in the board or executive positions, the company provides the compensation. If the OP does not take a position on the board or in an executive role within the invested companies, the fund/firm provides the compensation. None of the interviewed firms deducted the compensation paid by the company from the management fee.

In most firms (89%), OPs received a combination of fixed salary with bonuses or carry, or both, as shown in Figure 5. This highlights the importance of having a variable portion of the salary

to align interests with the return generation. In 95% of the respondents, the fixed salary is paid monthly.

**Figure 5. Compensation structure for Operating Partners**

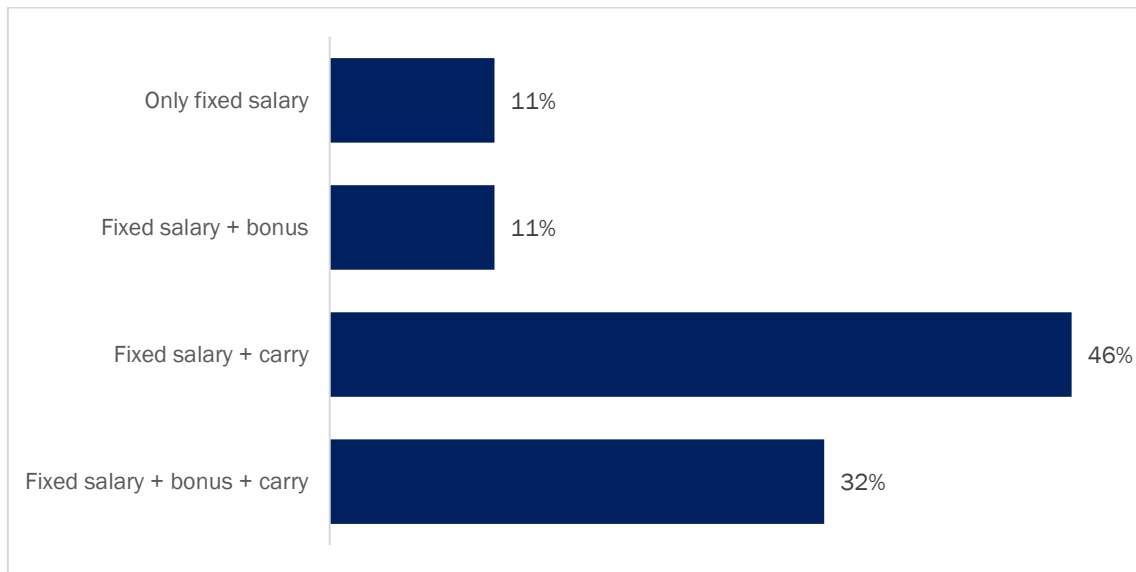
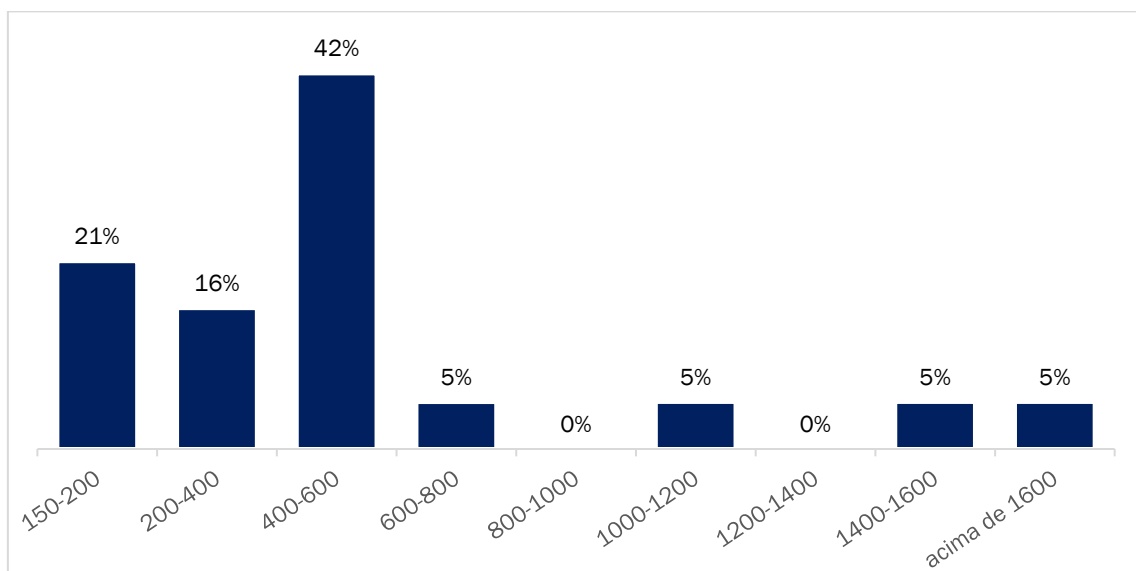


Figure 6 illustrates the distribution of firms based on annual fixed salary. The average annual fixed compensation is R\$ 690,000 (median of R\$ 480,000). There is considerable variation in fixed salaries, ranging from a minimum of R\$ 150,000 to a maximum of R\$ 4.4 million, which can be attributed to whether the firm is local or foreign. Foreign firms offer an average annual fixed compensation of R\$ 1,344,000, while local funds have an average of R\$ 420,000.

Additionally, 5% of firms offer daily payment based on a fixed contract. OPs work as consultants (or sector experts) and receive payment for each specific service they provide.

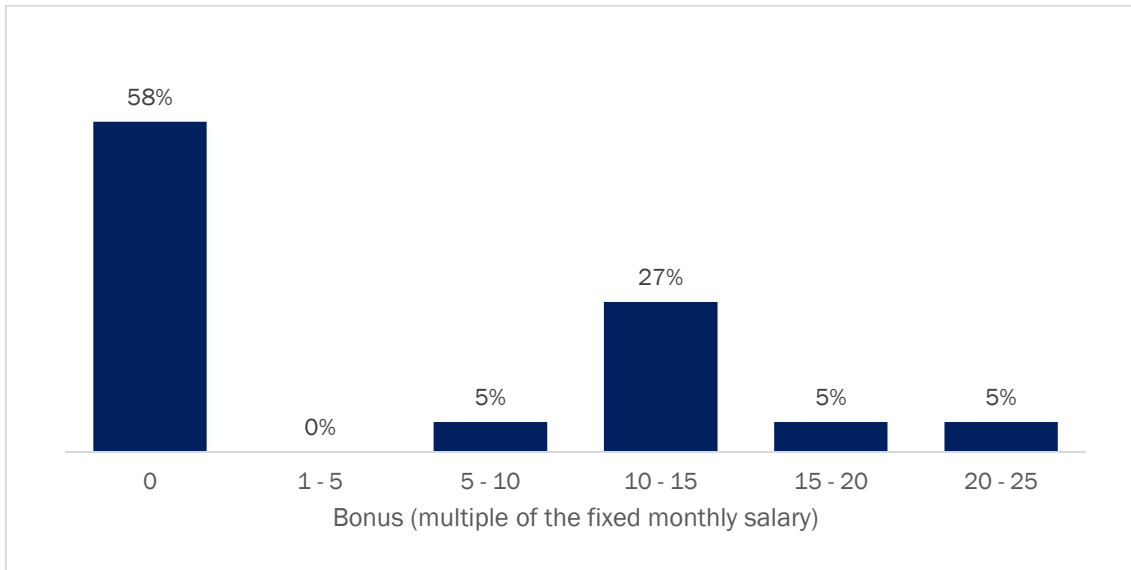
**Figure 6. Distribution of Annual Fixed Salary (R\$ thousands)**



Bonuses are paid by 43% of the firms, ranging from eight to 20 times the monthly fixed salary. The average bonus is 13.8 times the monthly fixed salary (median of 13.4). There is a

negative relationship between the fixed salary amount and the bonus-to-monthly-salary ratio, meaning that the lower the fixed salary, the higher the bonus (Figure 7).

Figure 7. Bonus as a multiple of monthly fixed salary



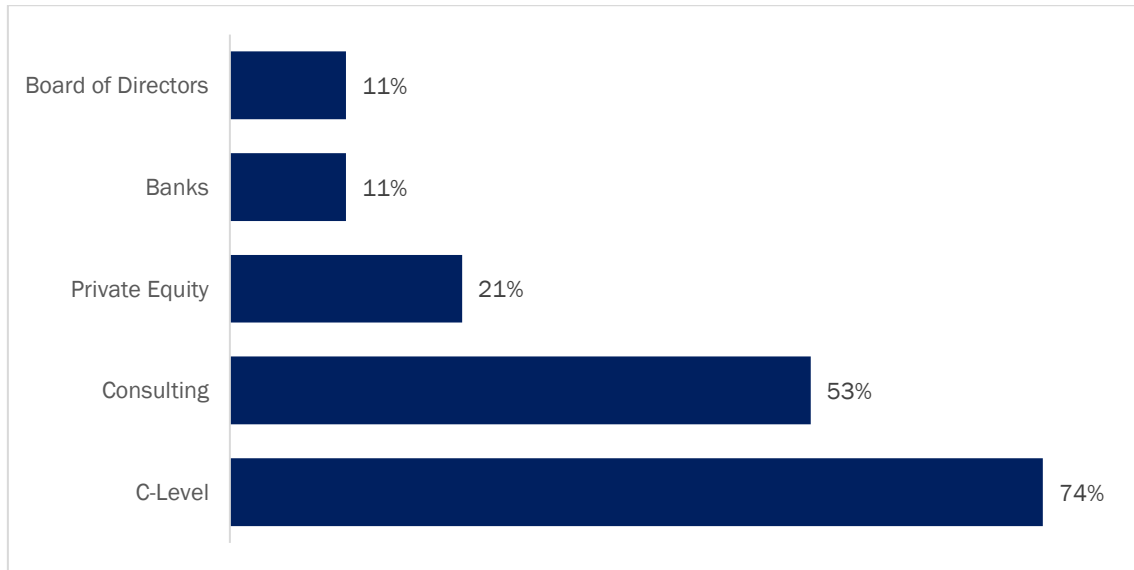
Carry is the incentive provided by 79% of firms, with 80% of these firms paying carry based on the performance of the fund and 20% only on the investments in which the OP is directly involved. This indicates a desire to incentivize the OP to leverage synergy opportunities across the portfolio, rather than focusing solely on the companies they are directly involved with. Although there were few responses, there was a consistent approach regarding the percentage of carry that the OP can receive, typically 5% of the investment team’s carry pool. The vesting period ranges from 3 to 5 years.

Other forms of performance-related compensation or benefits reported by the firms include co-investment opportunities, success fees, shares in the invested company, and stock options, further aligning the OPs' interests with those of the fund.

## BACKGROUND OF THE OPERATING PARTNER

Private Equity fund managers highlight the experiences they consider essential for the role of Operating Partner (Figure 8). According to 74% of respondents, experience in C-Level positions is crucial for assuming the OP role, emphasizing the importance of strategic vision and proven leadership ability. Additionally, 53% of survey participants noted the valuable contribution of prior consulting experience, underscoring the need for analytical skills and a strong understanding of business dynamics. Other experiences, such as previous roles in Private Equity (21%), financial institutions (11%), and board memberships (11%) were less emphasized. This suggests a trend among funds to prioritize direct executive experience and consultative expertise over other professional backgrounds.

Figure 8. Experience required to be an Operating Partner



## CONCLUSION

The recognition of Operating Partners in private equity has increased significantly, primarily due to their crucial role in creating value for portfolio companies. Value creation is not just a phase but a continuous aspect of the investment professional's role, where the ability to add value and deepen sector knowledge is highly valued. This focus on value creation becomes even more significant in the context of rising interest rates in the United States, which pressures investors to seek more robust returns through operational and strategic improvements rather than relying solely on financial leverage, a practice less common in Brazil where the leveraged buyout model is not as prevalent.

Moreover, many firms choose to have more than one category of OPs, combining specialized consultants and more prominent figures, or "big names," who assist in both fundraising and significant transactions. This diversity of talent allows firms to create a pool of skills that can be flexibly and strategically applied depending on the specific investment needs or market conditions. In some cases, this structure can even extend to a pool of companies, facilitating resource sharing and carry among them, and enhancing opportunities for synergy and value creation.

The practice of hiring local OPs by foreign investors is a growing trend, highlighting the importance of regional knowledge in conducting business and implementing growth strategies adapted to each market's specific realities. This becomes a crucial competitive advantage, especially in emerging economies like Brazil, where understanding local dynamics can mean the difference between investment success and failure.

Smaller private equity firms are also increasingly interested in attracting operating partners, recognizing the value these professionals bring to fundraising, analysis, and value creation. However, due to financial resource limitations, these firms need to be creative with their compensation structures to appeal to operating partners. A common approach includes offering carry interests or performance-based bonuses. Additionally, they may offer stock options or equity stakes in portfolio companies, aligning the interests of OPs with the long-term results of the firm and encouraging deeper commitment to operational success. These variable compensation

strategies not only help offset a more limited fixed salary budget but also foster a more integrated and motivated partnership for sustainable growth.

However, not all cases of OP involvement are positive. Issues can arise when OPs fail to balance the investment fund's objectives with the needs of the invested company or when they start aligning more closely with entrepreneurs at the expense of the fund's interests. This misalignment can lead to significant internal conflicts, compromising both value creation and the relationship between investors and managers. Therefore, proper selection and management of OPs are essential to ensure their contributions yield sustainable benefits for all parties involved.