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Analysis of the Private Equity performance in Brazil

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“The best way to predict the future is to create it”

Peter Drucker

Abstract

The goal of this paper is to evaluate the performance of private equity activity in Brazil, taking into account the difficult times that the worldwide activity is being through.

Considering that Brazil is currently one of the major emerging economies in the world (Enert&Young, 2011) and the fact of private equity's activity in this country registered a positive evolution, this study allowed to evaluate not only the evolution of the funds that are implemented in the Brazilian market, but also permitted to understand the main factors that had lead it to this growth. Through this work was also possible to compare the returns of private equity funds with the evolution of the principal stock exchange in Brazil (IBOVESPA), in order to determine the level of implicit risk in both alternatives.

The results suggest that private equity performance was slightly higher than IBOVESPA, and even more important the results also showed that private equity funds, in average, were less risky than the stock exchange.

Therefore, according to the results, the analysis undertaken proved to be an important tool to unveil the new reality of private equity in the Brazil, so it could be used by any investor who has this market as a target.

Keywords: Private Equity, Performance, IPO, IBOVESPA

JEL: G24, G32

Sumário

O presente trabalho teve como objectivo avaliar o desempenho da actividade de capital de risco no Brasil num período bastante conturbado da actividade a nível mundial.

Visto que o Brasil é actualmente uma das principais economias emergentes no mundo, e que a actividade de capital de risco neste país tem evoluído de uma forma bastante positiva (Enest&Young, 2011) o estudo desenvolvido permitiu avaliar não só a evolução dos fundos que estão implementados no mercado Brasileiro, mas também entender os principais factores que conduziram a este crescimento. Através deste trabalho foi também possível comparar o crescimento do capital de risco com a evolução do principal índice bolsista no Brasil (IBOVESPA) com o intuito de se poder parametrizar o nível de risco face às duas alternativas estudadas.

Os resultados obtidos sugerem que a actividade de capital de risco no Brasil apresentou um comportamento ligeiramente superior ao do IBOVESPA, sendo que a principal nota de destaque prende-se com o facto de os fundos de capital de risco, em média, terem apresentado um risco bastante inferior ao do mercado bolsista.

Assim sendo o presente estudo revela-se importante para que esta nova realidade do capital de risco no mercado Brasileiro possa ser conhecida em toda a sua plenitude por todos os investidores que tenham interesse no mercado Brasileiro.

Palavras-Chave: Capital de Risco, Performance, IPO, IBOVESPA

JEL: G24, G32

Executive Summary

The history of private equity in Brazil only began in the past few years, due to a past marked by high interest rates that drove away the investor's interest for private equity investments (Central Bank of Brazil, 2011). Until 2005 the activity in Brazil was residual, and it could have remained like that if the policies that draw the world's attention to Brazil won't take the desired effect. Hopefully for Brazil and for every investor targeting this country, these policies make Brazil one of the most promising economies in the world and after 2005 private equity activity started to rise and it seems, according to the report of private equity's activity done by Ernest&Young (2011) that it will not stop so soon.

The improvement of the economic conditions in Brazil attracted a lot of foreign investors to the country and private equity played, and is still playing, a very important role since it was the target of these investors, through the constitution of large number of private equity funds.

When the financial crisis arrived in 2008, every single economy in the world was affected, as well as the global private equity activity. The Brazilian industry was no exception but almost two years late and when the majority of the world's private equity industry is facing problems to recover, in which the European industry is registering a very soft recover (EVCA, newsletter 2011) Brazil is demonstrating to be one of the most stable industries in the world by achieving in 2010 values far above the registered in 2009.

Due to the increasing interest for investments in Brazil, this thesis tried to understand the evolution of private equity by analyzing the returns achieved for the industry between 2007 and 2010. Since in private equity the real returns can only be calculate when the funds are totally disinvested (*Cendrowski, Martin, Petro and Wadecki, 2008)*, it was used the variation of the net asset values as an indicator for the fund's performance.

The returns presented by the Brazilian private equity's industry were better than it could be expected and comparing them to the evolution of the main stock exchange in Brazil (IBOVESPA) was a crucial key in this analysis. Through that it was possible to

conclude that in average private equity funds did better than the stock exchange, but this comparison also showed that private equity funds have mainly presented better results than IBOVESPA when it was deeply submerged in negative returns.

The analysis to the PE industry in Brazil also demonstrated that the 10 biggest funds (represent 36% of the total assets under management according to the data provided by CVM) are a very restrict group and also very different from the rest which the average net asset value is 64 Millions of r$. The top 10 funds in terms of returns in 2010 are composed mainly by funds bellow 310 Millions of r$, which represents that not only the biggest funds are growing, but also that the Brazilian industry in whole is growing.

The rise of private equity in Brazil was driven by many factors, but there are some that took a vital importance. First the fragmented industry that was the incentive for private equity funds, since this is a huge opportunity of acting in the capitalization and expansion of a market that is composed for so many SME (Sousa, 2010). According to the Enert&Young (2011) not less important is the low level of infrastructure that the country has, it’s necessary to improve it a lot and another opportunity appears. The organization of the 2014 World Cup and the Olympic Games in 2016 is the guarantee that Brazil will continue to invest in order to improve it.

After a decade of reforms Brazil was able to growth and became a stable economy, which was the most important factor in the boom of PE. This economic growth of Brazil permitted the harmonization of the inflation and interest rates to similar values of the main world economies. Obviously the decrease of interest and inflation rates drove the investors’ attention to other alternatives, and then private equity emerged as one of the most promising alternatives.

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List of abbreviations used

ABVCAP – *Associação Brazileira de Venture Capital e Private Equity*

BVCA – *British Venture Capital Association*

CMVM – *Comissão do Mercado de Valores Mobiliários*

CVM – *Comissão de Valores Mobiliários*

IPO – *Initial Public Offering*

EMPEA - *Emerging Markets Private Equity Association*

GP – *General Partner*

LP – *Limited Partner*

PE – *Private Equity*

VC – *Venture Capital*

NAV – *Net Asset Value*

IOSCO - *International Organization of Securities Commissions*

EVCA – *European Venture Capital Association*

SME –*Small and Medium Enterprises*

GDP – *Gross Domestic Product*

FMIEE – *Fundos Mútuos de Investimento em Empresas Emergentes*

FIP – *Fundo de Investimento em Participações*

CAGR – *Compounded Annual Growth Rate*

GVcepe - *Centro de Estudos em Private Equity e Venture Capital*

PIPE – *Private Investment in Public Equity*

IBOVESPA – *Índice da Bolsa de valores de São Paulo*

PRIVATE EQUITY PERFORMANCE IN BRAZIL

1. Introduction

In the beginning of this century, the economist Jim O'Neill identified four countries that were poised to emerge as significant powers in the global economy: Brazil, Russia, India and China — the "BRIC" countries. At the time, BRIC countries were collectively contributing about 16% of the world's gross domestic product growth. Since then, their aggregate importance has exploded. Between 2000 and 2008, BRIC economies represented approximately 30% of global growth; since the onset of the financial crisis, that figure has increased to an astounding 45%.

Brazil in particular is growing even more than Jim O'Neill anticipated and after many years of false starts, the country has worked diligently to transform itself into a stable platform for future economic growth. With vast natural resources in a time of increasing global demand, a surging young population with an emerging middle class and maturing capital markets inspiring confidence in investors at home and abroad, the country is ready to transition to a more developed economy.

According to BVCA & PricewaterhouseCoopers (2003), Private Equity (PE) is an important funding source to the economy by acting through participations in companies with high potential of growth and focusing efforts in order to support their expansion. Due to the economic conditions and by problems faced by the bank system across the world, capital is more than ever a scarce resource and PE could play an important role in terms of stimulating the economy.

For these reasons and more, Brazil is the subject of significant interest by PE investors worldwide. Activity in the region is up significantly by seasoned investors and new entrants alike. Global PE firms, many of which have long had sporadic dealings in Brazil, are now looking more closely at establishing a permanent presence to capitalize on future opportunities (ABVCAP, 2010).

Through the analysis of the PE's evolution in Brazil, this project has the purpose of studding the expansion of PE in this economy in order to understand the true reality of PE in Brazil and also to indentify the main factors that contributed to this growth.

In the next chapters I will make a retrospective to the PE activity In Brazil, starting with a theoretical framework in which I will present the main theoretical definitions focusing them to fully contextualize the Brazilian case. After that I will make retrospective to the industry of PE in the world, in Europe, in Portugal and in Brazil. In this case, Portugal was chosen because it is the country where the analysis is being made and also because it becomes easiest to Portuguese investors, funds or any interested people to understand the reality in Brazil taking Portugal as a comparison. At last I will make an empirical analysis to the evolution of PE returns in Brazil and identify the main factors that had a vital impact in the rise of PE.

2. Theoretical Framework

Private Equity Definition

According to EVCA *"Private equity provides equity capital to enterprises not quoted on a stock market. Private equity can be used to develop new products and technologies (also called venture capital), to expand working capital, to make acquisitions, or to strengthen a company's balance sheet. It can also resolve ownership and management issues. A succession in family-owned companies, or the buyout and buyin of a business by experienced managers may be achieved by using private equity funding."*

By the other hand, the expressions of Private Equity and Venture Capital come always together and it's important to distinguish them:

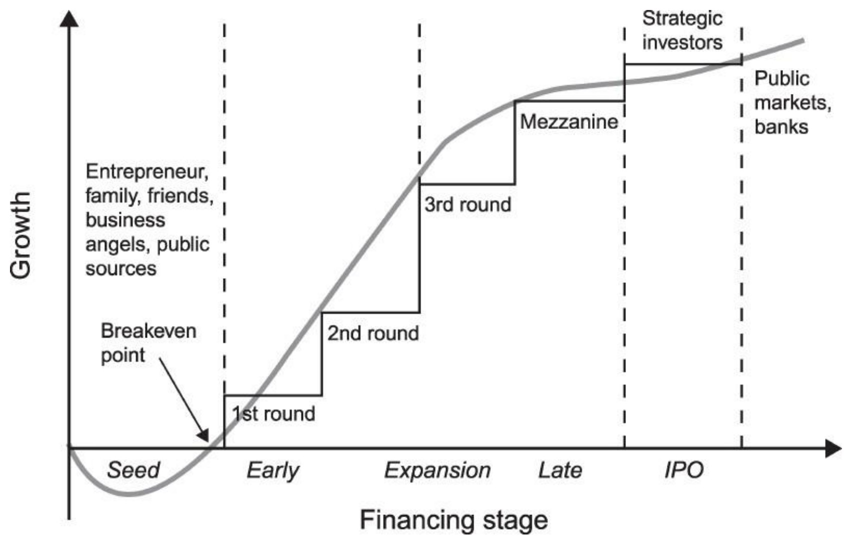
"Venture Capital is a professional equity co-invested with the entrepreneur to fund an early-stage (seed and start-up) or expansion venture. Offsetting the high risk the investor takes is the expectation of higher than average return on the investment. Venture capital is a subset of private equity."

According to Fraser-Sampson (2007) Venture Capital (VC) funds often specialize in different stages of the company life cycle. A VC fund can also lead a young company through the different phases depending on the performance and potentials. Usually VC funds hold minor equity interests.

VC funds are considered to be the riskiest investments in the private equity industry since the target companies are small and not well diversified. The value created by VC funds is based on finding the best potential revenue generating ideas and companies. By accumulating a portfolio of these companies, the probability that one or more of the portfolio companies will grow exponentially increases and the few successful companies will be the value generators for VC funds.

Investment Stages

Figure 1: Private equity investment stages



Source: Cendrowski, Martin, Petro and Wadecki (2008)

According to Cendrowski, Martin, Petro and Wadecki (2008) there are 4 main stages of investment in PE:

Seed stage: Investments in the seed stage are meant for research & development and prototype development. This phase is the predecessor of the early stage phase.

Early stage: In this phase marketing and product development are the important activities that need financing. Sales and thus profit are not generated yet.

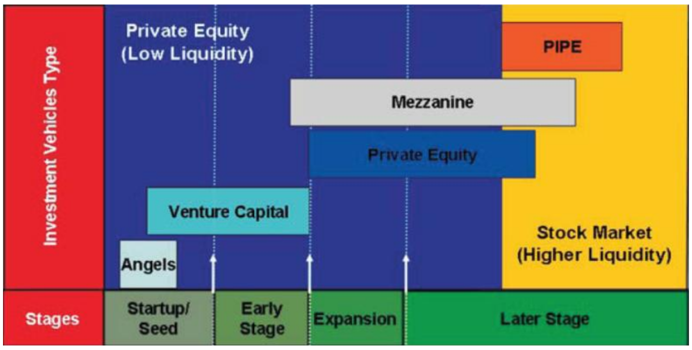
Late stage: This phase requires financing for expansion and growth. The company is breaking even and needs financing for production capacity or working capital.

Expansion capital and other later stages: The Company reaches maturity and other investors purchase a minority of shares. The majority of shares are still owned by the company founder.

PE provides long-term, committed share capital, to help unquoted companies grow and succeed. Obtaining private equity is very different from raising debt or a loan from a lender, such as a bank. Lenders have a legal right to interest on a loan and repayment of the capital, irrespective of your success or failure. PE is invested in exchange for a stake in your company and, as shareholders; the investors' returns are dependent on the growth and profitability of your business (Cendrowski, Martin, Petro and Wadecki, 2008).

Brazil

Figure 2: Private equity investment stages in Brazil



Source: ABVCAP

The Brazilian industry of PE it's divided as the U.S.A. standards, separating the terms of PE and VC in order to distinguish these different stages (ABVCAP, 2009). Besides this division, investments in mezzanine and PIPE (Private Investment in Public Equity) are also very common in this industry.

Venture Capital

Seed capital - Small contribution made in pre-operational phases to develop an idea for a project, for market testing and also for patents registration;

Startup - Inflow of capital to companies in structuring phases, usually during the first year of its operation, even when it isn't yet active in the market;

Early Stage – Financing companies that have products or services already in the market, usually up to 4 years of operation and bellow $ 9 million of revenues.

Private Equity

Expansion or growth - Capital contribution to the expansion of a company that already sells its products or services. The investment is also intended to expand the company by the improvement of his local capability, the company's internationalization or even a financial restructuring.

Later Stage and Buyout - At this stage the company has achieved a growth rate relatively stable and a positive cash flow. This sort of investment has less risk, but it is generally less profitable.

Mezzanine

It's a later stage investment provided to a company that is already producing and selling a product or service, for the purpose of helping the company achieve a critical objective that, in many cases, will enable it to go public. This type of investment is made through subordinated debt or hybrid instruments of financing, including various forms of debentures and subscription rights.

PIPE

Acquisition of equity capital for companies already listed on the stock market that have low liquidity and in which the organization can play an active role in managing strategic management.

Investment types

Usually PE funds use debt to finance their acquisitions. So for successful investing, PE funds rely in this phase on favorable market conditions to purchase debt and to acquire a company. Short-term and intermediate-term interest rates for low-grade bonds are the most important factor in this phase.

The terms that most PE firms use to define the "stage" of a company's development are determined by the purpose for which the financing is required (Cendrowski, Martin, Petro and Wadecki 2008).

Seed

To allow a business concept to be developed, perhaps involving the production of a business plan, prototypes and additional research, prior to bringing a product to market and commencing large-scale manufacturing. Only a few seed financings are undertaken each year by PE firms. Many seed financings are too small and require too much hands-on support from the PE firm to make them economically viable as investments. There are, however, some specialist PE firms which are worth approaching, subject to the company meeting their other investment preferences.

Business angel capital should also be considered, as with a business angel on a company's board, it may be more attractive to PE firms when later stage funds are required.

Start-up

The target here is to develop the company's products and fund their initial marketing. Companies may be in the process of being set up or may have been trading for a short time, but not have sold their product commercially. Although many start-ups are typically "smaller" companies, there are an increasing number of multi-million pound start-ups.

Expansion

Expansion capital investments are focused to mature companies that are looking for capital to expand or restructure operations, enter new markets or finance a significant acquisition without a change of control of the business. Companies that seek expansion capital will often do so in order to finance a transformational event in their lifecycle. According to the report of BVCA & PricewaterhouseCoopers (2008) these companies are likely to be more mature than VC funded companies, able to generate revenue and operating profits but unable to generate sufficient cash to fund major expansions, acquisitions or other investments. Expansion capital can also be used to transform a company's balance sheet, particularly to reduce the amount of leverage (or debt) that the company has.

Leveraged Buyouts

A leverage buyout can be described as a transaction in which a group of private investors, typically including management, acquire a company quoted on an exchange by taking on large debts with the target firm's assets and/or cash flow as security. This process can be transformational, value-added, or active-investment strategic and it calls for highly special skills by the investment managers. The investment cycle can be categorized into five different stages and each stage requires different skills as they focus on different stages of the company life cycle.

Management buy-out (MBO)

Is a corporate action that enables the current operating management and investors to acquire or to purchase a significant shareholding in the product line or in the business that they manage. MBOs range from the acquisition of relatively small formerly family owned businesses to £100 million plus buy-outs. The amounts concerned tend to be larger than other types of financing, as they involve the acquisition of an entire business.

Management buy-in (MBI)

A corporate action in which an outside manager or a management team purchases an ownership stake in the first company and replaces the existing management team.

Buy-in management buy-out (BIMBO)

Is a form of a buyout that incorporates characteristics of both a management buyout and a management buy-in. A BIMBO occurs when existing management - along with outside managers - decides to buyout a company. The existing management represents the buyout portion while the outside managers represent the buy-in portion.

Institutional buy-out (IBO)

To enable a PE firm to acquire a company, following which the incumbent and/or incoming management will be given or acquire a stake in the business.

This is a relatively new term and is an increasingly used method of buy-out. It is a method often preferred by vendors, as it reduces the number of parties with whom they have to negotiate.

Secondary purchase

This happens when a PE firm acquires existing shares in a company from another PE firm or from another shareholder or shareholders.

Bridge financing

Short-term PE funding provided to a company generally planning to float within a year.

Private equity and Venture capital stages in the Brazilian industry

In the Brazilian market the most common operations in the past few years, after the boom of PE and VC industry, has been operations involving companies in expansion and in the early stage (GVcepe, 2008). Besides that, projects at seed or start up stages are as well very common, representing approximately 20% of the total operations. According GVcepe (2008) PE operations involving companies listed on the stock market (PIPE) are frequent mainly because of the high relevance of PE in relation with IPO operations in Brazilian market. By the other hand, buyout operations are not very common deals in this market, never less they are the most significant in terms of value, as it was expected.

Exit Options

Many business owners and shareholder management teams are looking at some point to sell their investment or seek a stock market listing in order to realize a capital gain. PE firms usually also require an exit route in order to realize a return on their investments.

The time frame from investment to exit can be as little as two years or as much as ten or more years. At the time of exit, the PE firm may not sell all the shares it holds. In the case of a flotation, PE firms are likely to continue to hold the newly quoted shares for a year or more (EVCA, 2007).

The options:

Trade sale

The sale of your company's shares to another company, perhaps in the same industry sector.

The majority of exits are achieved through a trade sale(Fraser-Sampson 2007), and this often brings a higher valuation to the company being sold than a full stock market quotation, because the acquirer actually needs the company to supplement its own business area, unlike a public shareholder.

Repurchase

The repurchase of the PE investors' shares by the company and(or) its management.

Refinancing

Purchase of the PE investor's shareholdings by another investment institution. This type of exit may be most suitable for a company that is not yet willing or ready for flotation or trade sale, but whose PE investors may need an exit.

Flotation

To obtain a quotation or IPO on a stock exchange, such as the Official List of the London Stock Exchange, AIM, NASDAQ (USA) or IBOVESPA (Brazil).

Involuntary exit

This happens when the company enters in a liquidation process.

Brazil

The impact of Private Equity in the stock market

The IPO (Initial Public Offering) is a natural way for the exit of investment in PE in the world, but for many years were not a viable alternative in Brazil due to the volatile macroeconomic environment and high interest rates that watch over the country in 80's and 90's (GVcepe, 2008).

However, with the improved macroeconomic environment and increased global liquidity, concomitant reduction of interest rates, the stock market gained prominence as alternative long-term investment. In fact, since 2004 the Brazilian stock market took a new momentum with the wave of IPOs triggered by the divestments of businesses some organizations managing portfolios of PE (GVcepe 2008).

PE industry plays a very important role in relation with IPO deals, or in other words PE is one of the main booster of the new entries in the Brazilian stock market. IPO operation is actually, in terms of quantity and value, the main exit option for the PE entities (GVcepe, 2008), between 2004 and June 2008 were conducted 110 IPOs that raised R$ 88.5 billion, of which 39 companies had received investment from PE prior to public offering.

According with the same report GVcepe of besides the IPO option, which represented more than 50% of the operations made in the past few years, trade sale and buyback are the only other options used in this market, each one representing approximately 20% of the total transactions.

Fund Structure

According to Fraser-Sampson (2008) a PE fund is a financial vehicle, Limited Partnership that invests in companies during a limited time period of in general 10-12 years. After a fund raising period, the PE fund closes and new entrants are not allowed. It is also not allowed to leave the fund once you are in. After this initial period, the PE fund starts investing in companies.

If the general partner (GP) finds investment opportunities, he will give a *capital call* to each of the limited partners (LP), the investors. At that moment the LP's are obliged to submit a portion of their commitment. If a portfolio company is sold the revenues are distributed to the limited partners. The *vintage year* of a fund marks the start of the funds investing activities.

The general partner usually earns management fees and a performance incentive, also known as a *carried interest*. The carried interest is based on value growth beyond a certain level, the *hurdle rate*. The mandate of the limited partnership arranges aspects of the investment scope, commitment features and financial agreements. Typical aspects are: the geographical investment scope, the frequency and magnitude of capital calls, the specific sector focus, type of deals, type of exit strategy etc. The fund is usually structured to benefit the investor in terms of tax regulations and legal jurisdictions. To prevent an additional tax layer the fund is based on a transparent limited partnership.

Brazil

The Brazilian industry of PE is supervised by the Brazilian Securities Market Commission (CVM) that have created specific requirements for VC funds (FMIEE - Fundos Mútuos de Investimento em Empresas Emergentes) in 1994 and for PE funds (FIP – Fundos de Investimento em Participações) in 2003 (GVcepe, 2008).

PRIVATE EQUITY PERFORMANCE IN BRAZIL

Private equity funds (FIP)

Increasingly popular in Brazil, the FIP Fund (Private Equity) is mainly characterized by active participation in companies or businesses in which it invests. According to the instruction 391 of 2003 dated the CVM, the FIP is constituted as private and the assets under its management are intended to "acquisition of shares, debentures, warrants or other securities exchangeable for shares of companies that are public or private, participating in the decision making process of the invested company.

In other words, this means that the fund has real influence in setting the strategic policy and management, through appointment of members to the Board of Directors of the companies in their portfolio.

Venture Capital funds (FMIEE)

The FMIEE is a private fund with the purpose of sharing resources for the implementation of a diversified securities portfolio composed by emerging companies. It is understood by emerging companies, companies that have an annual turnover bellow R$ 100 million and with a consolidated net worth not higher than R$ 200 million.

The FMIEE represents an excellent mechanism to leverage companies that need resources, but does not have sufficient scale to be of interest to capital markets and therefore unable to break this barrier. The FMIEE can concentrate a large number of medium-sized businesses, these are likely to be as large as the market wants, and yet be able to leverage economic growth. The instruction n 209 by CVM establishes that 75% of the investment should be in shares, convertible debentures, or warrants and 25%, must be invested in shares of fixed income or fixed income securities.

Fund lifecycle

According to Cendrowski, Martin, Petro and Wadecki (2008) for each fund under management, PE firms cycle through a multi-staged process of:

Fund Raising

Most private equity firms raise capital for a fund through investments made by limited partners - typically pensions, endowments, institutional funds, and high net worth individuals, with the firm serving as the general partner.

Prior to a capital raise, PE firms normally establish a target fund size. Depending on the firm's track record and the general economic climate, fund raising efforts may either be under- or over-subscribed. New funds for historically successful firms are commonly over-subscribed and may therefore close with capital in excess of the target fund size.

Portfolio acquisition search

Once fund raising is complete, firms begin scouting for potential portfolio investments. While firms enjoy meeting directly with companies interested in selling, often the introduction between a company and a firm is made through an investment banker.

Investment

As PE firms identify potential portfolio companies in which to invest, they go through a merger & acquisition transaction process to acquire these new portfolio companies.

Corporate Growth

PE firms will often have a fairly aggressive growth strategy - for both organic and growth by add-on acquisitions - as a means to create value and therefore enhance the valuation of their portfolio.

Divestment

Liquidity Event

Because limited partners do not have an infinite investment horizon, PE firms must eventually convert equity value back to cash by liquidating portfolio holdings. A divestment could occur in the form of a buyout, initial public offering (IPO), strategic acquisition, or another firm buying the portfolio investment. Regardless of how it transpires, the divestment of a portfolio company creates a liquidity event for the firm, essentially converting equity into cash or more cash-like equivalents.

Capital Gains

PE firms make money both from the cash flow that a portfolio company produces while it is owned by the firm as well as from the capital gains realized upon exit. The liquidity event at exit produces and finalizes a capital gain (or loss) for the partnership for that particular investment.

Dispersal of funds back to limited partners

The dispersal of the capital gain (or loss) from the fund to the limited partners provides the limited partners with a definitive return on investment for the life of the fund.

3. Historical Overview

The history of PE is almost as old as history itself; however, the PE as we know today had it beginning in the United States (Cendrowski, Martin, Petro and Wadecki 2008). More specifically at the World War II when the Congress gave a boost to small businesses when it created the Smaller War Plants Corporation (SWPC) in 1942. Although many large businesses deployed enormous amounts of capital to increase production and efficiency for the wartime effort, smaller businesses, lacking such resources, could not compete with their larger competitors. In an effort to eliminate this issue, the SWPC became the first governmental body focused on loaning money expressly to private entrepreneurs (Esperança e Matias, 2005).

In the 1960s, PE firms organized into the structure that is common today, limited partnerships, in which investment professionals serve as general partners and the investors, as passive limited partners, provide the capital. Firms began using the now familiar “2 and 20″ compensation structure, with limited partners paying an annual management fee of up to 2 % and 20 % of profits to the general partners (Cendrowski, Martin, Petro and Wadecki 2008). In the late 1970s and 1980s, the industry experienced the first of three boom cycles. Financier Michael Milken popularized the use of high yield debt, also known as junk bonds, in corporate finance and mergers and acquisitions (Sorkin 2008). This fueled a boom in leverage buyouts and hostile takeovers. Milken’s network of high-yield bond buyers enabled him to raise large sums of money which provided the fuel for entrepreneurs such as John Malone’s Tele-Communications Inc., Ted Turner’s budding 24-hour TV network, Turner Broadcasting, cell phone pioneer Craig McCaw, and casino entrepreneur Steve Wynn.

Other well-known corporate raiders during the 1980s included Carl Icahn, Victor Posner, Nelson Peltz, Robert M. Bass, T. Boone Pickens, Harold Clark Simmons, Kirk Kerkorian, Sir James Goldsmith, Saul Steinberg and Asher Edelman. Milken’s money-raising ability also facilitated the activities of leveraged buyout firms such as Kohlberg Kravis Roberts. Led by three former Bear Stearns executives, KKR targeted successful family-owned businesses founded after World War II that were facing succession challenges. Many of these buyouts would sell off pieces of the company to pay off the debt load. Thus, leveraged buyouts came to symbolize “ruthless capitalism” prompting a backlash in the media and Oliver Stone's famous movie, Wall Street. The era culminated in the massive $31.1 billion dollar takeover of RJR Nabisco by KKR.

The junk bond industry collapsed later in the decade in part due to Milken's 1989 indictment and 1990 guilty plea to multiple charges that he violated US securities laws. The industry enjoyed another boom cycle from 1992 to 2000 with the emergence of more institutionalized PE firms and the high tech frenzy among telecommunications and Internet companies. This cycle ended with the Dot-com crash of 2002. When the dust settled from that crisis, historically low interest rates geared to jump-starting the economy spawned a wave of leveraged buyouts from 2003 through 2007. It led to the completion of 13 of the 15 largest leveraged buyouts in history, a major expansion in PE activity, and the growth of massive, institutional-sized PE firms such as The Blackstone Group and the Carlyle Group (Burrough and Helyar 1990). Sarbanes Oxley legislation, passed in the wake of the corporate accounting scandals at Enron, WorldCom, Tyco, Global Crossing and other companies also added an extra layer of cost and complexity to publicly-traded companies. Thus, many top executives saw PE ownership as more attractive than remaining public. Leveraged buyouts were back, only this time PE executives rebranded themselves as pursuers of corporate efficiency and of "adding value" to underperforming companies. Major buyouts were once again common from 2004 through 2006 due to widely available credit at unprecedented levels of leverage. By 2007, however, the crisis that affected the mortgage market spilled over into the world of leveraged finance. By midyear, there was a clear slowdown in high yield and leverage loan markets with far fewer issuers. Uncertain market conditions continued to put a damper on investment, with many firms withdrew from or renegotiated deals completed at the top of the market. The credit crunch has prompted PE firms to either sit tight on their investments or pursue other ways of deploying their funds. This includes Private Investments in Public Equity transactions. In addition, several of the largest PE firms have pursued opportunities through the public markets. In 2006, Kohlberg Kravis Roberts raised $5 billion in an initial public offering for a new permanent investment vehicle (KKR Private Equity Investors). The Blackstone Group completed its first major IPO of a PE firm in June 2007. These public offerings allow investors who would otherwise be unable to invest in a traditional PE limited partnership to gain exposure to a portfolio of PE investments. According to the Wharton School of Business and their 2009 Wharton Private Equity & Venture Capital

Conference, PE firms will face unprecedented challenges in the next few years. Deals that once required only 15% in equity will require upwards of 35 to 40 % or more. In addition, many PE firms face a “wall” of refinancing that are due in 2012 which may challenge the survival of both the portfolio companies and many established PE firms.

Brazil

The initial steps taken by the Brazilian Government to encourage the development of VC activities date back to 1974, through programs run by the National Social and Economic Development Bank, and 1976, through the Studies and Projects Financing Agency. With the opportunities opened up by the real Economic Stabilization Plan in the early 1990s, PE activities became more institutionalized in Brazil, with the issue of the initial regulations for this sector. This economic context grew into a business environment that attracted PE investors that selected this channel as appropriate for investing in privatization (ABVCAP, 2009).

According to data taken from the Brazilian Private Equity and Venture Capital Census, there were eight fund managers in 1994. By 2000, this figure had risen to 45, reaching 132 in 2008 and more recently, in 2010, it reached 370.

According to information from this Census, by December 2009 the private equity industry encompassed 180 management entities, with 1,747 professionals involved in this field, 236 investment channels and 554 companies in portfolios. In 2003, Brazil’s PE investments options expanded (due to implementation of new regulations), which until then lacked their own control system established by law. Added to this was corporate law reform, together with confirmation by the judiciary branch of arbitration as a lawful way of settling corporate disputes, while underlying macro-economic conditions remained stable.

The PE and VC segment set a new record when bringing in US$ 34 billion capital in 2009, earmarked for investments in Brazil. In 2008, this figure reached US$ 27.1 billion, up from US$ 5.6 billion in 2004. In just half a decade, this amount expanded more than fivefold, according to data taken from the census of this sector. It is also important to stress that the inflow of PE foreign capital to Brazil reached a record level of around US$ 4 billion in 2007(GVcepe, 2008). Out of the total amount of capital allocated to PE investments, some 58% comes from foreign investors. By mid-2008, they channeled some US$ 1.11 billion to Brazil, equivalent to 43% of the funds brought in last year. As the 1997-2004 investment cycle tapered off, it became quite clear that the PE sector is endowed with ample growth potential, reaffirming its importance for the development of the capitals market in Brazil, which is clearly apparent through countless case studies of successful enterprises in this sector. Untiring efforts by the market, the government and the regulators, striving to fine-tune the channels through which funding is brokered, are focused on offering entrepreneurs easier access to capital, while helping generate more jobs and higher incomes, in parallel to fostering sustainable economic growth for Brazil.

4. Private Equity – Global retrospective

In order to understand the magnitude of PE development in Brazil, it is important to make a retrospective to this industry in a worldwide scale.

Global market

The PE industry has over the past two years seen the biggest downturn in activity in more than a decade. Investments, funds raised and exit levels were all well down on levels seen prior to the economic slowdown. The industry nevertheless remains an important source of funds for startup and young firms, firms in financial distress and those seeking buyout financing (Bain&company, 2011).

PE emerged in 2010 from the steep decline that followed the global financial meltdown and economic recession, looking very much like the kind of recovery that characterized rebounds from the industries past cyclical downturns. According to data provider Dealogic and Hodkinson(2011), announced buyout deal value totaled $180 billion for the year worldwide, with big gains in deal activity in all major markets.

Europe

Two years after the collapse of Lehman Brothers, which triggered the worst global economic crisis since the Great Depression, Europe has not yet emerged from the economic doldrums. Most European financial institutions have, however, managed to regain investors' confidence and while GDP growth is now positive, both public deficit and sovereign debt levels in certain countries worry financial markets (EVCA, 2010). In this context, the overall European economic recovery looks fragile and the general financial environment remains uncertain.

Nevertheless, PE activity has shown signs of a modest recovery in 2010. Preliminary data for the first nine months of the year points to an increase in investment and exit levels on full-year 2009 (by 13% and 9% respectively). Fundraising, however, remains challenging with the total amount raised during the first three quarters of 2010 similar to 2009 levels.

Portugal

Portugal's economy, like that of other countries in Southern Europe, does not have a history of PE investing. In countries like the US and the UK, PE emerged in the post-war period and has developed since, with the inevitable ups and downs. In Portugal, the industry started gaining more weight after 2000 (Domingos, 2010). At the time, a number of Portuguese and international investors were seeking alternative use for funds and aiming for geographic diversification.

According with Domingos (2010) a possible explanation for the late emergence of PE funds in Portugal is that countries in Northern Europe and the UK have mandatory pension regimes and pension funds are willing to invest into PE (an asset class which is reputed to yield higher returns compared to investments in quoted equity). Countries in Southern Europe rely mostly on Government sponsored provision of retirement income. Governments tend to follow conservative strategies and are not significant contributors to PE. Moreover, most Portuguese companies are SMEs, many of which family owned. In fact, SMEs account for 86% of employment in Portugal (against 50% in the US). The usual way to finance companies in Portugal consists in a mix of equity (provided by family and a network of business associates) and bank loans.

Portugal doesn’t have a long history in PE as the numbers show us by telling that 64% of PE companies were created after 2001 and only 9% of PE entities have more than 30 years of activity (APCRI, 2008).

At the end of 2009, there were 52 active PE funds registered with CMVM (Comissão do Mercado de Valores Mobiliários). These funds are managed by 28 GPs and the sum of all funds was above 3000 Millions of Euros.

Brazil

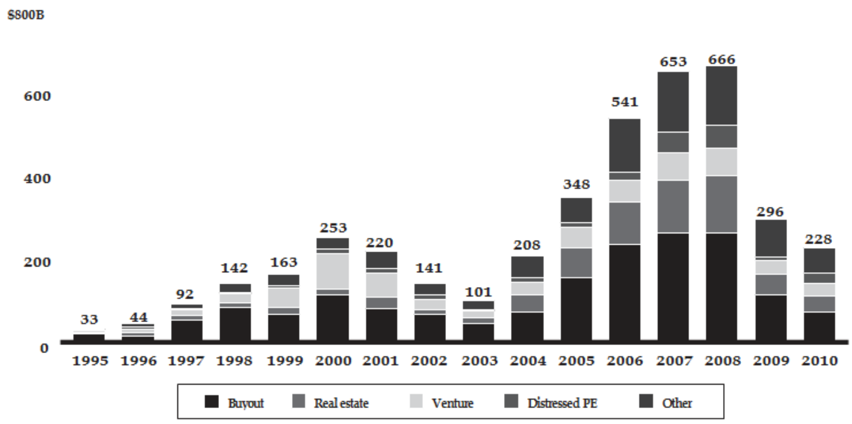
Over the last 10 years, partly as a result of government policies designed to stimulate employment, maintain low inflation and better distribute the country’s growing wealth, nearly 30 million Brazilians have entered the middle class and they are beginning to consume nearly as much as their counterparts in more economically developed nations (Ernest&Young, 2011). The country is rapidly growing into one of the world’s largest consumer markets for everything from shampoo to automobiles. The trend is expected to gather steam as prosperity becomes a self-perpetuating cycle, giving more consumers more dollars for goods and services further up the value chain, driving new opportunities for even more of the country's citizens to share in Brazil's growth story.

In the last two years, PE firms have taken notice of Brazil's growth and have been increasing their activity in the country. For local PE firms already active in the market, this means a time of unprecedented deal flow and new opportunities. For mega-firms with the interest and the resources but not necessarily significant experience investing in Brazil, it means opening new offices, raising new funds, adding new professionals who are familiar with the local market and putting assets to work in a handful of initial deals.

As activity has increased, so too has an understanding of PE's prerogatives and methodologies by Brazil's business community. Entrepreneurs and family business owners that were once wary of working with PE firms are now more accepting. In many instances, business owners have seen firsthand how a competitor or supplier benefitted from PE involvement (GVcepe, 2010).

Fundraising

Figure 3: Global PE funds raised, 2010

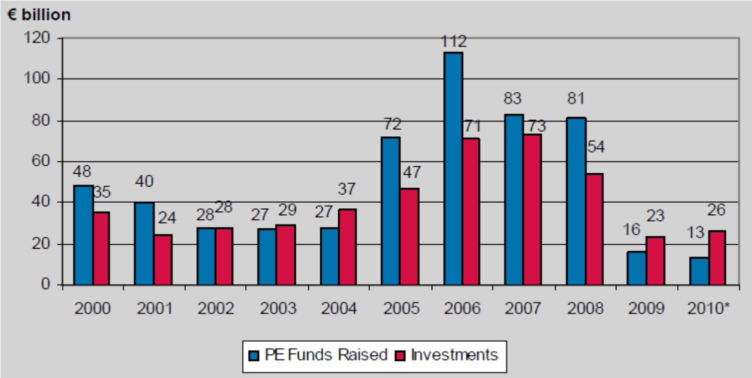


Source: Bain&Company, 2011

PE fund-raising conditions continued to deteriorate throughout 2010. Worldwide, PE firms managed to raise just $228 billion last year, according to Bain&Company (2011). That was 23% less than they took in during 2009, itself a depressed year. Perhaps befitting economic conditions, only funds that invest in distressed assets saw a small fund-raising pickup during this otherwise bleak time.

Funds raised fell by two-thirds in 2009 to $296bn, the lowest annual amount raised since 2004. Many factors weighed against new fund-raising efforts in 2010. On the demand side, LP budgets for new PE commitments in 2010 were conservative. Most drew up their 2010 budgets in 2009 when the market conditions they faced were grim. At the time, most LPs were pushed to the limit of their PE target allocations by the so-called denominator effect, as write-downs in the valuation of their PE holdings lagged those of their portfolio as a whole. Also, with PE exit activity blocked and little in the way of cash distributions they could count on, they were caught in a liquidity squeeze. Finally, they faced a huge overhang of obligations to meet capital calls on $1 trillion of commitments they had previously made.

Figure 4: Europe PE Funds raised, 2010

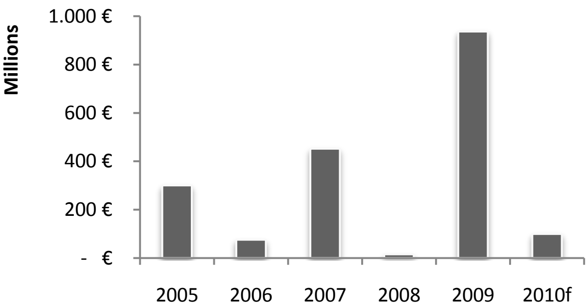


Source: EVCA, 2010

One of the biggest issues faced by the industry during the crisis has been the extremely challenging fundraising environment. In 2009, due to a number of factors, commitments to PE funds fell dramatically (EVCA, 2010).

From €81bn in 2008, the amount raised went down to only €16bn in 2009, and remained at subdued levels in 2010 with €13bn raised during the first three quarters of the year. Although the extent of the drop in the recent crisis was much larger than the drop in fundraising after the dot.com bust, the market seems to experience a similar trend: fundraising does not rebound as fast as investments and remains at lower levels for a longer period.

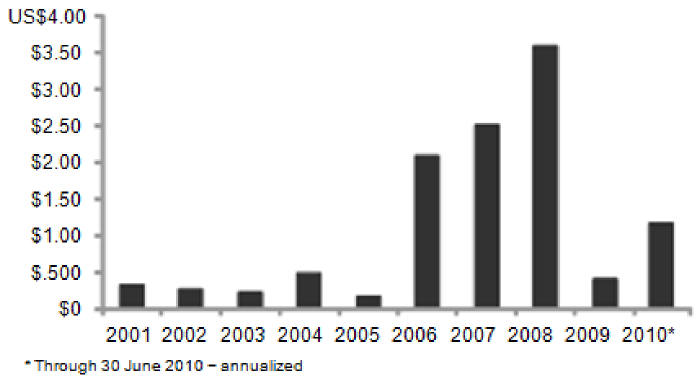
Figure 5: Portugal PE Funds raised, 2010



Source: APCRI, 2010

The year of 2009 was the best in the last 5 years, the values raised by PE funds was above 900 Million Euros. There was a huge different comparing with the same situation in 2008, this happened mainly because there was a transformation of a holding company into a PE fund (CMVM, 2009). According with APCRI (2011), PE fundraising reached in 2010 99.5 M€ which represents a decrease of approximately 90% comparing with 2009.

Figure 6: Brazil - PE Funds raised, 2010



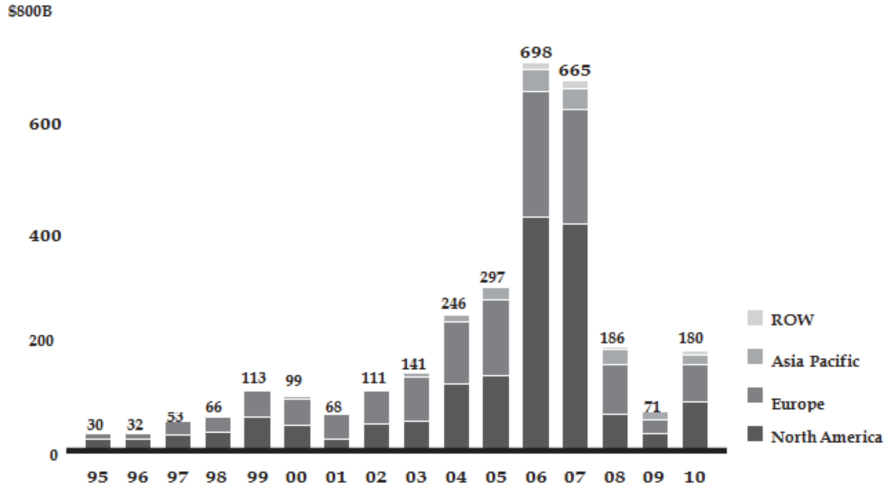
Source: Ernerst&Young, 2010

Fund-raising for Brazil-targeted funds in particular increased significantly in 2006, jumping to US$2.1 billion from levels of approximately US$200 to 400 million in the years prior. As the buyout boom gained steam, so too did commitments earmarked for the country, topping out at US$3.6 billion before declining in 2009, consistent with broader industry trends.

As the global fund-raising environment recovers, it is expected that a greater number of assets will be invested in vehicles targeting Latin America. A recent survey by Coller Capital (2011) found that emerging markets' share of new LP commitments will increase significantly as investors diversify their PE portfolios globally. Investors with existing exposure to emerging markets plan to grow their exposure from 6% to 10% of new PE allocations to 11% to 15% over the next two years. What's more, Brazil is expected to be a prime benefactor of their interest. Many LPs that have made initial emerging market investments in China and India are now looking to Brazil. Almost 20% of investors with exposure to emerging markets other than Brazil said they would be putting money to work in Brazil over the next two years.

Investments

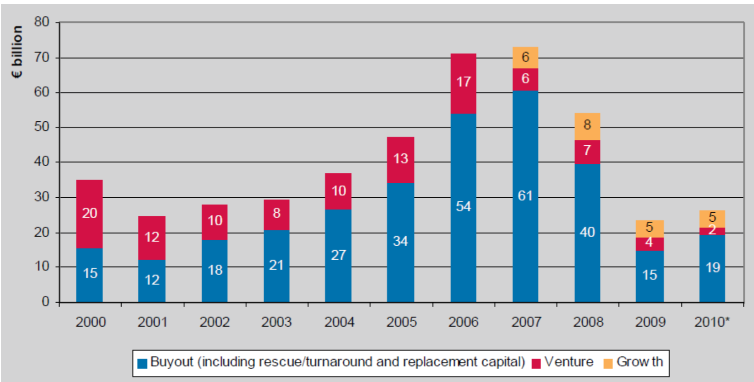
Figure 7: Global Private equity investments, 2010



Source: Bain&Company (2011)

PE emerged in 2010 from the steep decline that followed the global financial meltdown and economic recession, looking very much like the kind of recovery that characterized rebounds from the industry past cyclical downturns. According to Bain&Company (2011), announced buyout deal value totaled $180 billion for the year worldwide, with big gains in deal activity in all major markets. In North America and Europe, the epicenter of the global credit crisis, deal values were up 192 percent and 160 percent, respectively, from the cyclical trough. Deal making in the Asia-Pacific region, too, resumed its strong growth as PE firms and their investors continued to lavish attention on that hot growth market.

Figure 8: Europe - Private equity investments, 2010

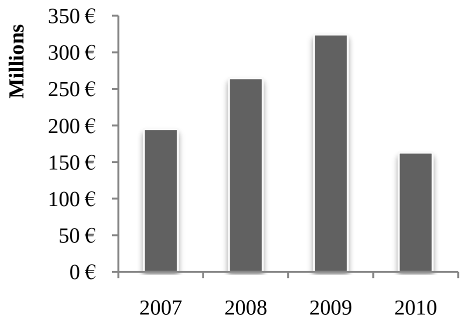


Source: EVCA, 2010

Investment by European PE funds registered a modest recovery in 2010, with €26bn invested in the period January-September 2010, up from the 2009 trough of €23bn (full-year data). The recovery was mainly driven by buyouts which went up by one-third on full-year 2009, to €17bn, with large and mega deals doubling on the full-year 2009 levels. In the first three quarters of 2010, growth capital reached the same level as in the full-year 2009, with €4.7bn invested, while VC investment reached only 60% of the 2009 level, at €2.5bn.

The number of companies financed decreased slightly (-17%) to 5,046 companies in 2009. This indicates smaller average sizes of investment per company, decreasing from €9m in 2008 to €5m in 2009. Buyouts represented 53% of the total amount invested, although the number of companies financed through a buyout represented just 12% of all companies financed. Companies in the venture stages, mainly early-stage, attracted most of the investments (EVCA, 2010).

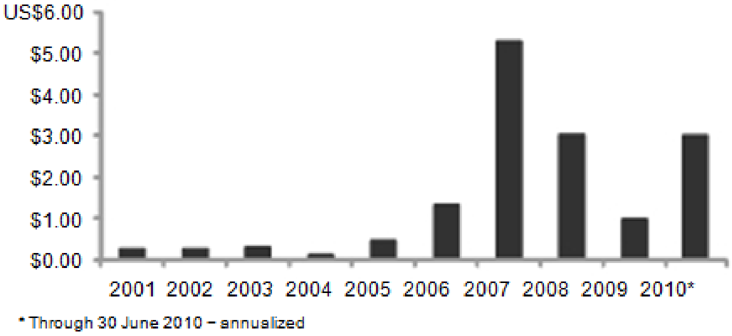
Figure 9: Portugal - Private equity investments, 2010



Source: APCRI, 2011

The Portuguese industry of PE has registered in 2009 a positive growth, against the world tendency in this industry, but this doesn't mean that the sector wasn't in crisis; actually it only means that in Portugal the impact of the global downturn in PE activity would only occur in 2010. The total deal flow decreased almost 50% in 2010, comparing with the values registered in 2009, and due to the actual economic and political situation of Portugal it isn't expected that 2011 will be a better year than 2010.

Figure 10: Brazil - Private equity investments, 2010

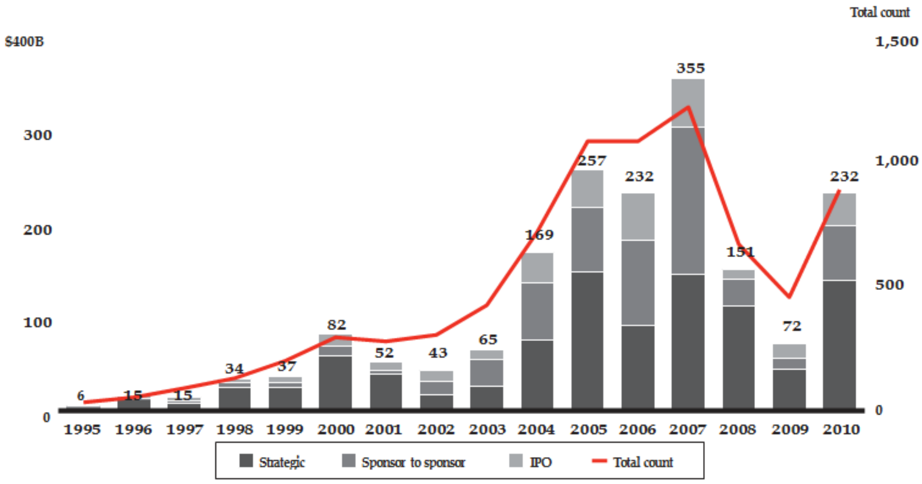


Source: Ernest&Young, 2010

After stagnating for many years at levels of US$200 to US$300 million per year, PE activity in Brazil picked up significantly in 2005, when nearly US$500 million in new deals were announced. Activity increased dramatically between 2005 and 2007, peaking at US$5.3 billion. Between 2008 and 2009, activity declined consistent with global merger and acquisition trends. On a year-over-year basis, transactions dropped 43% in 2008 and another 67% in 2009. While such declines are discouraging, activity nonetheless remains much higher than in the pre-boom years.

Disinvestment

Figure 11: Global Disinvestment activity

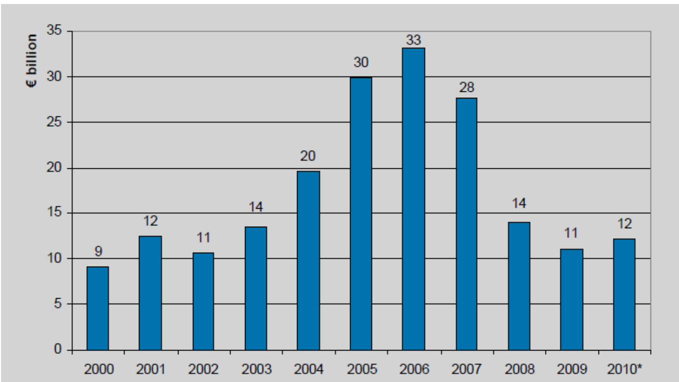


Source: Bain&company, 2011

As with deal making, exit activity rebounded strongly from depressed 2009 levels. Both in terms of the number of sales completed and the total value realized worldwide, exits in 2010 showed signs of a solid recovery. Even better, GPs saw opportunities to sell their previous investments improve markedly throughout the year. As concerns over a double-dip recession or a collapse of the European banking system ebbed, buyers of PE assets (corporations, public market investors and other PE firms) grew more confident and found common ground with PE sellers' price expectations.

Certainly, GPs were highly motivated to close out their ripe portfolio holdings and burn through their large unrealized portfolios. Many felt pressure to score some "wins" and bank returns before taking to the road with their next fund-raising effort. They also needed to provide liquidity to their distribution-starved LPs, enabling them to meet capital calls and reignite the fund-raising cycle (Bain&Company, 2011). Some felt obliged to get money back into the hands of the more junior investment professionals within their firms, many of whom joined at the height of the PE boom and have yet to earn any carry throughout the exit drought that followed the boom. Further, with expectations high throughout most of the year that taxes on dividends and capital gains in the US would be raised, PE firms were eager to lock in returns at the lower rates. Finally, and perhaps most important, market valuations on high-quality assets were robust.

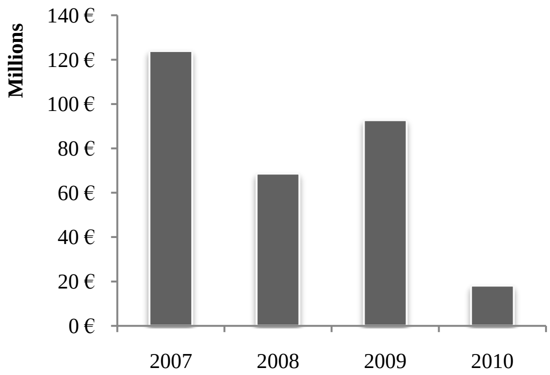
Figure 12: Europe: Disinvestment activity



Source: EVCA, 2010

In recent years the European exit market went through an unprecedented crisis, during which divestment levels were divided by three (from 2006 to 2009). Taking into account the high investment levels in the period 2005-2008 it follows that PE firms are left with a substantial number of investments which will need to be divested in the coming years. Therefore a rebound in divestment activity is highly expected and in fact a modest recovery is already taking place. Preliminary data for 2010 shows that €12bn at cost was divested in the first three quarters of 2010, 9% more than in the full-year 2009 (€11bn).

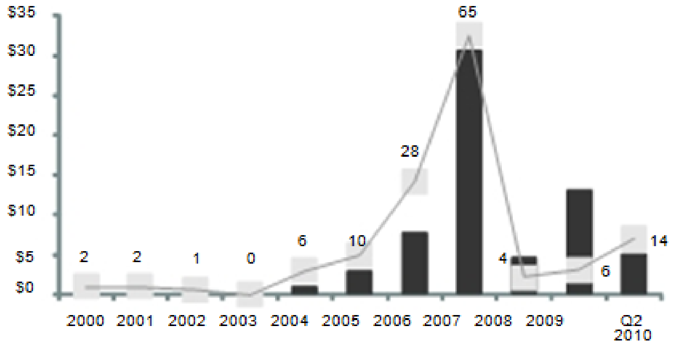
Figure 13: Portugal: Disinvestment activity



Source: APCRI, 2011

Portugal registered in 2010 a total disinvestment of 18 Millions, which represents a decrease of 80% comparing with 2009. The Portuguese industry of PE showed a high development in the recent years but it was not so efficient to improve the main problem for this industry in Portugal, the stock market. Portuguese market has a real problem when it comes to disinvest, due to the limitations of options mainly because the stock market doesn’t have the sufficient liquidity to be a viable exit option. This problem restrains the growth of PE in Portugal and also it limits the return to the PE entities due to the limited exit options.

Figure 14: IPOs in Brazil from 2000 through 2010



Source: Ernest&Young, 2011

The maturation of Brazil's capital markets has been a key factor in the increased focus on the country by PE investors. Until recently, most PE exits were characterized by trade sales to large multinational firms, and this remains a very important exit strategy for PE-backed companies. Indeed, two of the country's largest PE exits last year were sales to multinational firms.

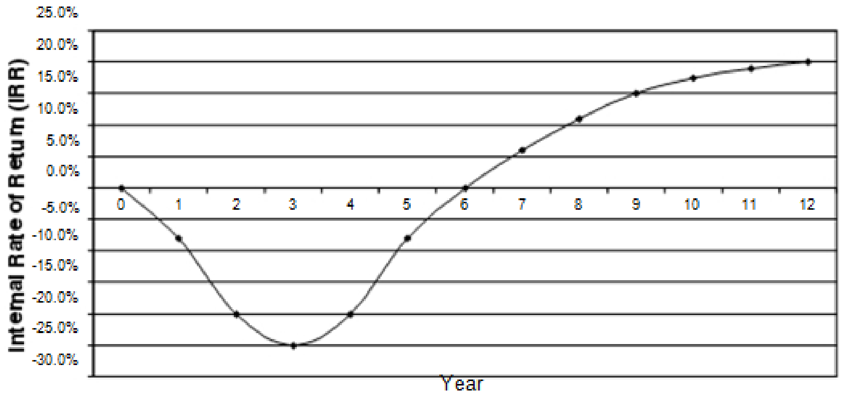
While trade sales to foreign firms still present the surest exit route for many investors, other options available to PE investors as they ponder their exit plans have been increasing as well. Cash-rich domestic acquirers are increasingly pursuing growth-through-acquisition strategies.

The most important development in recent years from a PE perspective is the emergence of Brazil's stock exchange as an venue for initial public offerings. While still small relative to other stock exchanges throughout the world, listings on Brazil's primary stock exchange, increased from just a handful in the early part of the decade to a peak of 65 companies in 2007 that raised a collective US$32 billion in gross proceeds.

5. Private equity in Brazil – Empirical Analysis

Methodology

Figure 15: J-curve



According with Mathonet and Meyer (2007) PE investment is different from just about any other asset class, and one of the main differences is that annual returns cannot be used as a guide to PE performance. The reason that annual returns are not a valid measure of PE performance is because an investment in a PE fund represents an investment in a stream of cash flows. When an investment is made in a PE fund, it will have a whole series of cash out-flows as money is drawn down by the GP, but both the timing and the amount of these outflows is totally uncertain. Similarly there will be a number of cash inflows as the GP distributes the proceeds of investments as they are realized, but it is completely impossible to predict in advance how much each one of these will amount to, or when it will occur. The calculation in respect of a PE fund can only be made once the very last cash flow has occurred; in other words, the true return will only be known retrospectively.

The J-curve is produced by looking at the cumulative return of a fund to each year of its life. In other words, the first entry will represent the IRR of the fund for the first year of its life. The second entry will represent the IRR of the fund for the first two years of its life, the third the IRR for the first three years, and so on.

Any PE fund will exhibit strongly negative returns in the early years as money is drawn down, if only through the effect of management fees. However, as distributions start to flow back to the investor then the downward march of the IRR will be reversed and there will come a day when the amount of inflows precisely matches the amount of outflows, thus creating a cumulative IRR of zero. This is the point where the J-curve crosses back over the horizontal axis and subsequent IRRs start to become positive.

A particular problem which arises with this diagram is that investors are so used to look at annual returns that they find it very difficult to evaluate a fund that cannot give them an annual profit.

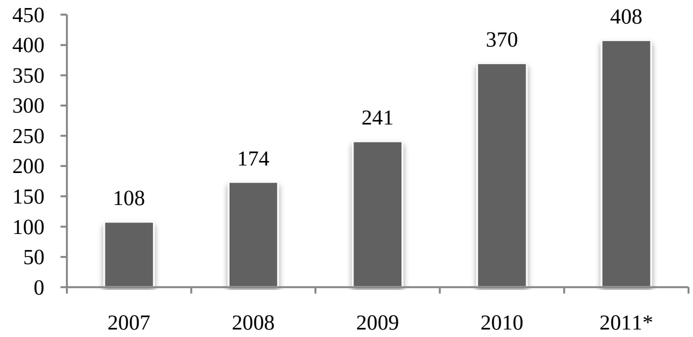
$$Net\ Asset\ Value = \frac{Net\ Asset\ Value}{n^{\underline{o}}\ of\ participation\ units} \tag{1}$$

In order to evaluate the annual returns of PE funds in Brazil, I will replicate the methodology that CVM applies, in order to evaluate (in annual terms) the development of each PE Fund. This methodology evaluates the return of each fund as the variation of its net asset value (NAV) (1).

This method is largely used all over the world, because it’s a tool that allows investors to compare the evolution of PE funds, even that they knew that this inst the real return for them but, it’s the better approximation possible to do in order to get some sort of evaluation on PE funds before the disinvestment phases (Lahr and Kaserer, 2010).

Brazilian Private Equity funds

Figure 16: Total active PE funds, 2011

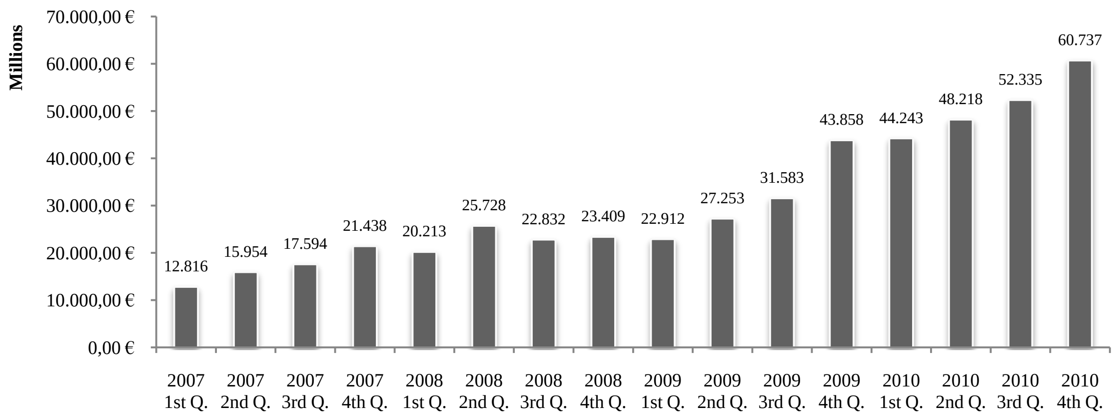


*1st Quarter 2011

Source: CVM

According to the data provided by CVM, there were 370 PE funds registered at the end of 2010, representing a compounded annual growth rate (CAGR) of 51% since 2007. In relation with 2011, only in the 1st quarter of the year, were registered 38 new funds, which indicate that the recent tendency of growth in Brazil is not stopping. The most important indicator for the recent evolution of PE in Brazil is that 70% of the active PE funds at the end of the 1st quarter of 2011 were constituted since the beginning of 2010.

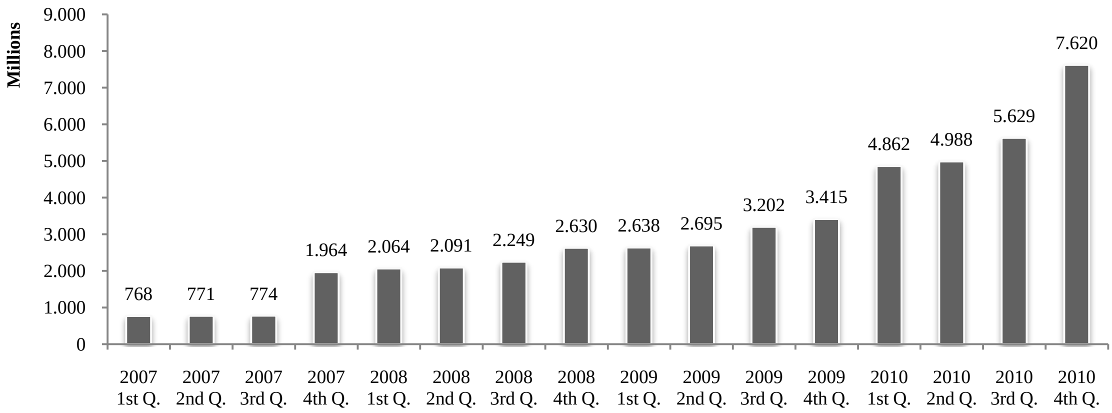
Figure 16: Net Asset Value, 2011



Source: CVM

In order to construct a data basis, I have collected the information for the net asset value for each PE fund per quarter since 2007, available at CVM's site. After that I compiled the numbers and I was able to make an overview of the net assets value evolution between 2007 and 2010. The evolution of the net asset values represented a CAGR of 63% in the referred period, where the main boost occurred after the 2º semester of 2009.

Figure 17: Total participation units, 2011

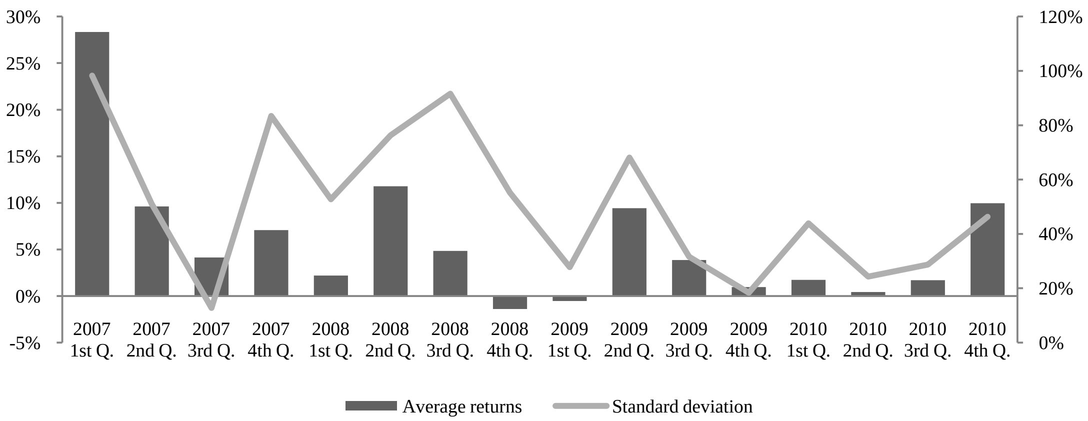


Source: CVM

Observing the evolution of the total number of participation units we can conclude that investment activity has been very high since the 2nd semester of 2007, as referred in the previous chapter. The total number of participation units has achieved 7,620 million at the end of 2010, representing a CAGR of 78% between 2007 and 2010.

Funds performance

Figure 18: PE Funds average returns, 2007- 2010



Through the variation of the NAV of a PE fund we can reach the return that it had in the observed period. By doing this to every PE funds registered in CVM, I was able to construct an average returns for the PE industry between 2007 and 2010. As we can see in the figure 18, the average returns were always positive, with the exception of the last quarter of 2008 and the first of 2009.

Never less these positive results, it's also important to take a look to the standard deviation evolution, since we are emerging from a financial crisis that deeply affected the global economy. In fact if we observe the period where the crisis started, at the end of 2007, it was the period where the variation of returns registered the highest values, reaching in the 3rd quarter of 2008 almost 100%.

Table 1 – Descriptive statistics for the PE funds average returns, 2007-2010

Descriptive Statistics	2007				2008				2009				2010			
	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th	1st	2nd	3rd	4th
Average returns	28%	10%	4%	7%	2%	12%	5%	-1%	-1%	9%	4%	1%	2%	0%	2%	10%
Standard deviation	98%	51%	13%	83%	53%	76%	92%	55%	28%	68%	32%	18%	44%	24%	29%	46%
Kurtosis	21.4	34.6	12.2	65.6	24.4	73.2	86.3	60.3	14.4	106.2	26.5	9.5	88.8	51.4	39.1	40.5
Asymmetry	4.5	5.5	3.4	7.9	4.4	8.1	8.8	6.8	1.3	9.5	3.6	-0.2	8.1	6.3	4.1	5.6
Minimum	-14%	-66%	-13%	-78%	-89%	-77%	-88%	-97%	-99%	-96%	-99%	-91%	-100%	-45%	-99%	-95%
Maximum	511%	326%	61%	687%	339%	706%	908%	505%	164%	768%	225%	79%	493%	215%	260%	438%
Nº observations	30	46	58	71	87	97	113	125	141	148	151	164	182	195	215	227

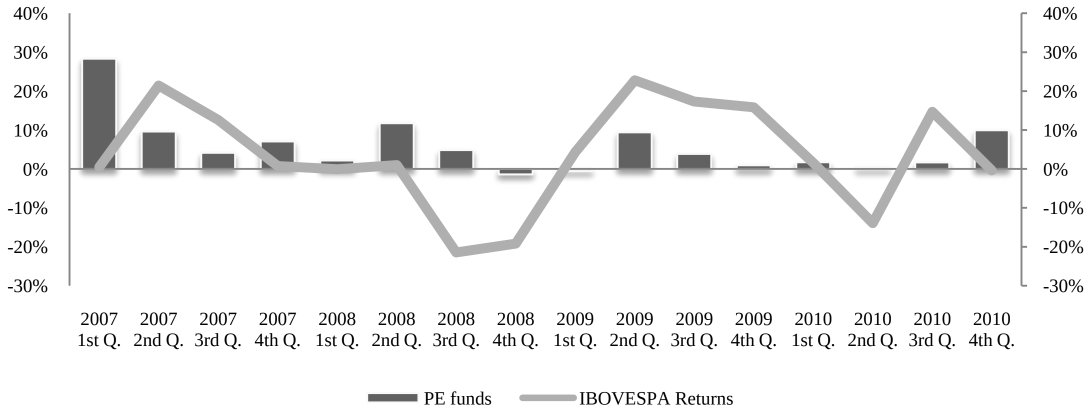
Analyzing the descriptive statistics for the average returns computed for the active PE funds between 2007 and 2010, we can see that, as I have said before, the period when the financial crisis started resulted in a period of very high variance in the PE funds returns.

This distribution is characterized also for being Leptokurtic, or in other words, to have its values very concentrated around the mean. In terms of asymmetry of this distribution is always positive, with the exception of the 4th quarter of 2009, which means that in this period the division between values that where over the mean and above the mean was very uniform(due to the low levels of asymmetry). Once again we can see that, the higher returns were achieved in the period where the economy was more depressed, but also the worst returns were registered in this period.

Private equity returns Vs IBOVESPA

To fully understand the behavior of the PE funds, we should compare the returns achieved by them with the Brazilian stock index, IBOVESPA. For that I have considered the quarterly returns of IBOVESPA between 2007 and 2010.

Figure 18: PE Funds average returns, 2007- 2010



Source: BM&FBovespa

Comparing the two distributions we can see that, when IBOVESPA is in positive returns, PE funds seem to be almost always bellowing them. By the other hand, when IBOVESPA is registering neutral or negative returns, PE funds showed always better results.

Table 2 –Descriptive statistics – IBOVESPA vs. PE funds, 2007-2010

Descriptive statistics	IBOVESPA	PE funds
Average returns	4%	6%
Standard deviation	14%	7%
Kurtosis	-0.50	5.78
Asymmetry	-0.43	2.11
Minimum	-21%	-1%
Maximum	23%	28%

Considering the descriptive statistics for the evolution of IBOVESPA and for the average returns of PE funds, IBOVESPA has been more risky in this period than PE funds (in average) since it have a standard deviation double higher than PE funds.

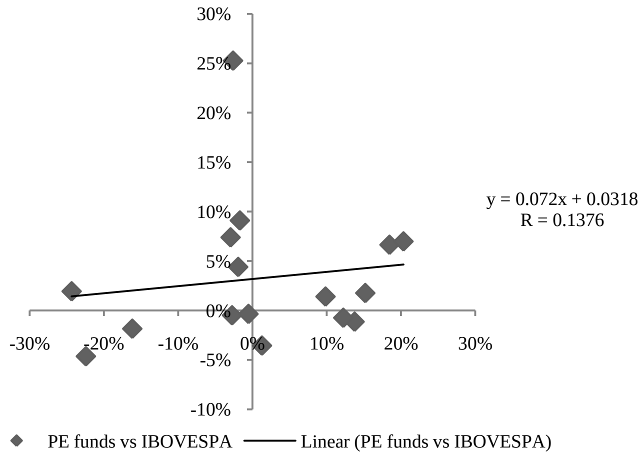
Never less the similar average returns that these distributions have, their behavior has been very different, and it is showed not only by the values of standard deviation, but also by the maximum and minimum returns achieved.

Table 3 – Linear regression statistics (IBOVESPA vs. PE funds)

Regression statistics	
Multiple R	0.1376
R square	0.0189
Adjusted R square	-0.0511
Standard error	0.0733
Observations	16

The linear regression is a very important tool in any sort of comparison because it gives us the true dependency between the two variables, through the value of R and R^2. In this case, with a value of 0.1376 and 0.0189 respectively, we can confirm the previous judgment made in the sense that PE funds are not dependent of the IBOVESPA behavior; at least they aren't dependent enough since only 1.9% of their behavior is affected by the IBOVESPA development.

Figure 19 –Linear regression IBOVESPA vs. PE funds



In terms of graphical analysis we can confirm the conclusions already achieved, in the sense that this two distributions clearly don't have a strong correlation which is proved by high dispersion level in the graph above and also by the tendency line because it is almost horizontal. It is also important to distinguish the behavior of these variables when we they present positive returns and when they present negative returns. If we only analyze the correlation between the left side of the figure 19 we can see that the correlation is near 0, because PE funds have the same level of returns (i.e. 0%) when the IBOVESPA is registering -20% or even 0%. By the other hand positive returns seem to be much more correlated than the negatives, when we compare the level of returns observed. This point of view means that, as referred before, PE funds registered positive returns every time that IBOVESPA does it, but when IBOVESPA falls down and gets deeply in the negative returns, PE funds don't follow this tendency.

Funds ranking

Table 4 – Main PE funds in Brazil, 2010

TOP FUNDS				
#	PE funds	Fund Type	Industry/sector target	NAV (Millions r$)
1	Bertin FIP	Buyout	Retailer	4,949
2	Energia São Paulo FIP	PIPE	Energy	3,171
3	Desenvix FIP	Buyout	Energy	2,887
4	FIP Volluto	PIPE	Airlines	2,056
5	FIP da Serra	PIPE	Construction	1,868
6	Prot - FIP	Expansion	Retailer	1,487
7	FIP Coliseu	Buyout	Energy	1,432
8	GJP FIP	Buyout	Hotels and Services	1,279
9	Brookfield Brazil Retail FIP	Buyout	Retailer	1,231
10	APX BRAZIL FIP	Buyout	IT	1,220

Source: CVM

The 10 main PE funds are headed by *Bertin FIP*, which is a fund that invests in only one company, with the objective of becoming the world leader in the retail meat business. This policy is very often in this restrict group of the largest PE funds, since *Port FIP* and *FIP da Serra* also present this strategy of focusing the investment into only one large company. Another important characteristic of this top 10 is that it represents 36% of the total assets under management of PE funds in Brazil.

Table 5– Descriptive statistics and histogram for the NAV of PE funds, 2010

Descritive Statistics	
Mean	224,123,119
Median	64,391,563
Mode	450,135,477
Standard Deviation	488,689,142
Kurtosis	40.5
Asymmetry	5.5
Minimum	15,823
Maximum	4,949,263,459
Observations	271

Histogram		
Interval	Frequency	Cumulative %
< 15,000 r$	1	0.37%
< 310,000,000 r$	217	80.44%
< 620,000,000 r$	31	91.88%
< 930,000,000 r$	6	94.10%
< 1,250,000,000 r$	8	97.05%
< 1,550,000,000 r$	3	98.15%
< 2,165,000,000 r$	2	98.89%
> 3,000,000,000 r$	3	100.00%

Observing just the major PE funds in Brazil may be misleading in the sense that if we analyze the descriptive statistics, we can see that the top 10 funds are very different from the majority of PE funds operating in Brazil. First of all the fact of more than 90% of the total PE funds in Brazil have a NAV less than 600 Millions of r$, and so, this means that the PE funds true reality is far below this value. To me more precise, we can say that at the end of 2010, approximately 80% of the PE funds had a NAV bellow 310 Millions of r$, and within this majority the average NAV was 67 millions of r$.

Table 6 – Top PE funds in terms of returns, 2010

#	Private Equity Fund	Industry/sector target	Cumulative returns in 2010	NAV (millions r$)
1	Central Veredas - FIP	n.a.	488.08%	76.8
2	Fundo de Serviços Logísticos para o Brasil - FIP	Logistic	298.26%	16.5
3	Vision Agro FIP	Agriculture	267.54%	0.1
4	Saga Pelican FIP	Retailer	263.41%	36.0
5	Vila Rica I FIP	Oil and Gas	259.71%	242.9
6	FIP Figas	Oil and Gas	253.89%	24.0
7	FIP - Instituiçoes Financeiras e de Varejo	Retailer	230.09%	243.9
8	CRP VII FIP	Food Retail	214.97%	95.5
9	Foco Conquest FIP	Services	191.40%	40.6
10	FIP da Serra	Construction	181.40%	1,867.8

The cumulative returns represent the growth achieved by each PE fund in the last year, as we can observe the majority of this top is composed by PE funds with a NAV bellow 100 millions of r$, which indicates that this type of funds is doing a very good jog in a market that is growing exponentially . Once again, and according with the audit report of each presented fund, many of these funds act in one straight investment into a large company, and use it as a vehicle to the real targets.

Table 7 – Descriptive statistics for the PE funds returns, 2010

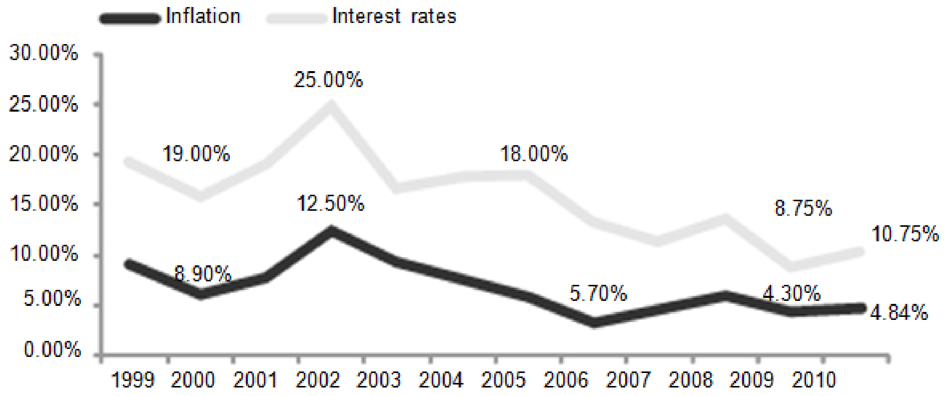
Descriptive statistics	
Average returns	12.7%
Median	0.0%
Standard deviation	66.0%
Kurtosis	16
Asymmetry	3
Minimum	-100%
Maximum	488%
Observations	236

PE funds achieve an average return of 12.7% in 2010 what represents very positive indicator in the sense that just for this indicator, PE activity is growing even excluding the new investor that are entering in the market (fundraising). Not less important in this analysis is the value for the median, since it indicates that half of the total PE funds are presenting results equal or above 0%. In terms of Kurtosis and Asymmetry we can observe that due to the high level of kurtosis there is a high concentration of observation around the mean, and that this distribution is very uniform due to the low level of asymmetry.

Main reasons behind Private Equity boom in Brazil

The economic boom

Figure 20 – Evolution of inflation and interest rates in Brazil



Source: Central Bank of Brazil, 2011

In recent years, Brazil's efforts at reform over the previous decade have begun to pay off. Lending slowly improved, and the country's companies have become increasingly competitive on a global level. The country's central bank had wisely adopted strict monetary policies designed to build and maintain foreign reserves, and the government quickly implemented a stimulus plan designed to keep banks lending and encourage consumption at the consumer level. Interest rates were slashed by 500 basis points. As a result, GDP dipped briefly into negative territory but quickly recovered. In 2009, Brazil's GDP declined just 0.4% from a year earlier, while GDP in the US, the UK and Japan declined 2.4%, 4.9% and 5.2%, respectively (ABVCAP, 2010).

Tax incentives for certain investments

Brazil's tax regime is by most accounts overly complex and discourages corporate investment; however, the country is working to change that. One such way is through offering tax incentives designed to promote investment in strategically important industries and regions. Regional incentives also exist, in connection with establishing a presence in the less-populated Amazon and Northeastern regions of the country. Certain other key industries are targeted for incentives as well (Ernest&Young, 2011).

Industry fragmentation

Some industries in Brazil are characterized by a high degree of fragmentation, and so they can present rich opportunities for investors with the expertise and resources to effectively consolidate (Sousa, 2010). Sectors including education, healthcare, and retail are defined by large numbers of smaller firms competing for market share, providing fertile ground for PE roll-ups.

One reason for the lack of industry concentration is the number of family-owned business operating in Brazil. Like much of Latin America, family-owned businesses dominate Brazil's small-and-medium-size business landscape, and family succession issues have historically driven a great deal of Brazil's PE activity (Eernest&Young, 2011).

Maturation of Brazil's capital markets

According to CVM Brazil's capital markets have undergone a significant maturation over the last decade, inspiring confidence in investors worldwide. Increased transparency in the banking system has enabled better oversight by the country's central bank and regulators.

Brazil's bank settlement system now operates in real time, enabling regulators to see issues as they emerge and take appropriate action before problems escalate. Likewise, Brazil's financial markets have undergone a transformation in recent years that has emboldened investors. Listed companies in Brazil are now beginning to report their consolidated financial statements and obviously increasing the transparency, reliability, and comparability.

The stock market, IBOVESPA, has already a market capitalization in excess of US$1.1 trillion. While still small relative to larger exchanges (the NYSE has a market cap of approximately US$12 trillion), it demonstrates the impact that regulatory changes can have in attracting investors to Brazil (Ernest&Young, 2011).

Significant need for infrastructure investment

Brazil's infrastructure is in need of substantial investment. Less than 10% of the country's highways are paved and most are in poor condition. Population migration is increasing the need for water and utilities projects in urban centers. The rise in the number of the middle class translates into increased consumption, which can be witnessed in the significantly increased volume of automobile purchases. Many of these are by first-time buyers. As there is limited mass transit, the increase in autos will create more congestion on already busy roadways. Not less important will be the organization of the World Cup in 2014 and the 2016 Olympics which will require an additional US$50 billion in investment. While a small percentage is earmarked for stadium development, much more will be spent on inter-urban transport, including airports and roads, urban transport and sanitation. In fact, more than 1,600 separate projects have already been identified for the World Cup.

Successful cases of Private Equity deals in Brazil

According to ABVCAP, the most successful PE's deals are the following:

Diagnósticos da América S.A. − DASA

Extremely active in São Paulo, Rio de Janeiro and Curitiba, DASA has 148 units and three hub laboratories servicing more than 15,000 customers, in addition to handling 80,000 examinations each day. The units operate under eight brands names, with good reputations in their markets, including Delboni Auriermo, Lavoisier, Lâmina, Bronstein and Curitiba Santa Casa.

In 1999, the Pátria Banco de Negocios acquired a stake in DASA through a private equity fund, underpinning its expansion to the extent that it becomes the largest diagnostic medicine enterprise in Latin America. The success of this investment culminated in the company being accepted for the *Novo Mercado* segment of the São Paulo Stock Exchange (BOVESPA) on November 19, 2004, raising R$ 377 million.

América Latina Logística − ALL

The largest rail-based logistics operator in Latin America, ALL ships goods for customers in many different segments, including agricultural produce, inputs and fertilizers, fuels, civil construction, forestry, steel, toiletries and clearing, electro-electronics, automobiles, parts and spares, packaging, chemicals, petrochemicals and beverages. It offers a full range of logistics services, blending the economic advantages of rail transportation with the flexibility of trucks, throughout an area that accounts for more than 62% of the GDP of the Southern Cone Common Market (MERCOSUR).

After absorbing investments from PE funds allocated by firms such as GP Investimentos, CSFB, Electra, and GEF, ALL was able to expand. Today, it runs more than seventy service units located in major cities all over Brazil, Argentina, Chile and Uruguay, in addition to distribution centers and 185,000 square meters of warehousing facilities. The rail network administered by

ALL covers 20,495 kilometers, encompassing Southern São Paulo, Paraná, Santa Catarina and Rio Grande do Sul States, in addition to central Argentina. It crosses the borders with Paraguay and Uruguay, while also servicing Chile by road through its intermodal logistics base at Mendoza in Argentina. Six of the most important ports in Brazil and Argentina are also serviced by ALL. It conducted its first public offering of shares on June 25, 2004, bringing in R$ 588 million.

Natura Cosmetics

On the market for more than 35 years, Natura is reaffirming its leadership on the cosmetics, toiletries and perfumeries sector. During the late 1980s, it undertook a broad-ranging restructuring process, with new companies joining the group between 1979 and 1981, merging in 1989. During the early 1990s, Natura began to showcase its corporate beliefs and mission, formally establishing its social commitments and gearing up for the deregulation of the Brazilian markets, as imports began to appear.

Expanding rapidly, Natura launched its internationalization drive in 1994, moving into Argentina, Chile and Peru, where it set up distribution centers and trained its consultants. In 2005, its income topped R$ 3.2 billion, with net revenues of R$ 1.5 billion. Natura has absorbed PE financing allocated by Janos Participações and BNDESPar as the investors. Renowned for corporate accountability and transparency, it went public on the São Paulo Stock Exchange (BOVESPA) in May 2004, with a volume of R$ 768 million.

GOL Airlines

Ranked as one of the world’s fastest-growing companies, Gol Airlines took off for the first time in 2001. Today, it flies to 49 towns and cities all over Brazil, in addition to neighboring countries such as Argentina, Uruguay, Bolivia and Paraguay. It holds a 29% stake of Brazil’s air travel market, with ample potential for further growth. In 2005, Gol posted net revenues of R$ 2,669 billion, with net profits of R$ 513 million.

In April 2002, Gol entered into discussions with AIG Capital in order to absorb investments underwriting its initial growth spurts. With an inflow of US$ 26 million, Gol expanded its services on the international market and introduced good corporate governance practices. Continuing to grow, it went public in June 2004, bringing in more than US$ 280 million on the São Paulo Stock Exchange (BOVESPA). This is a great example of a Brazilian company that is geared for aggressive growth, ready to absorb PE funds.

Localiza Car Hire

The largest car hire chain in Brazil by number of agencies, the Localiza service network includes 283 car-hire facilities, 96 run by the company and 187 franchised out, operating in six countries in 203 towns and cities in Latin America. It works with car hire, fleet management and leasing, as well as franchises, which are complementary and synergetic.

In 1997, Donaldson, Lufkin & Jenrette purchased a third of Localiza for US$ 50 million, with this investment allowing it to grow and establish its credibility on the market. In 2005, Credit Suisse successfully sold off its stake in the company through an IPO on the São Paulo Stock Exchange (BOVESPA), bringing in around US$ 130 million, with Credit Suisse receiving more than US$ 20 million in dividends. PE investments allow successful cash-outs with healthy profits.

6. Conclusion

The evolution of PE in Brazil it's demonstrating to be capable of reaching far above what any investor would anticipate. The global financial crisis inflicted a slowdown in the global PE activity and Brazil was no exception, but in 2010, and according to Ernest&Young (2011), the recovery started and Brazil is showing signs of strength in a time of global uncertainty.

Brazil is currently the 10th largest economy in the world, and it could soon be the fourth largest (ABVCAP, 2011). In a recent survey made by Emerging Markets PE Association and Coller Capital (2011) Brazil takes the lead in the emerging countries more attractive to PE funds, surpassing the powerful China. The Brazilian market has represented in 2010 almost 17% of the PE markets of South America and Asia, excluding China (ABVCAP, 2010). In opposite to the Portuguese market tendency (CMVM, 2009), the Brazilian market has followed the global PE development in the last year and seems now be ready to start another period of high development.

Through the analysis that I had done it was possible to see the development of PE in Brazil in a perspective that was not clear before, in the sense that at the beginning we knew that PE was growing in terms of fundraising and investment, but what we didn't know was how the PE funds, that are established in Brazil, were doing in terms of managing their assets. This is a very important step in order to evaluate the development of PE, because it's so important to analyze the growth of fundraising and investment in a Brazil as It is to analyze if the PE funds are getting a positive return, since return is the most important factor in attracting investors.

The evolution of PE in Brazil is attracting many investors and since 2007 the number of PE funds have grew a lot, and this attractiveness doesn't seem to be affected by the global slowdown in the economy given that 70% of the total PE funds in Brazil were register since the beginning of 2010(CVM). The NAV under management of the PE funds in Brazil has reached its maximum growth within the financial crisis; this point takes a very important role in order to understand the great level of opportunities that the Brazilian market is demonstrating. After a financial crisis there is always great opportunities that are temporally limited, in this phase, when banks fail to help the economy, PE takes a very important role in the sense that they have the capability of stimulating the economy and at the same time making very good deals. This was what didn't happen at Portugal and what is happing at Brazil, taking advantage of this opportunities demonstrate that Brazil is not just an emergent market but also a mature economy capable of facing difficult times, due to an industry that is investing in the growth of this country.

The returns analyzed along this thesis come from the NAV's variation of each fund, which means that in fact what we is being evaluating is not the return for the investor, but is how the PE funds are managing their assets. Compare the evolution of these returns with the main stock exchange in Brazil (IBOVESPA) it's a crucial key in this analysis, because by doing this we can demonstrate the advantages and disadvantages for an investor of putting their money into a PE fund. First of all we must consider that IBOVESPA actually have responded very well to the global crisis taking into to account the data available at the BM&FBovespa site. If we compare the evolution of the main stock exchanges around the world in this period, IBOVESPA for sure would be in the first places. Even with this behavior PE funds registered a better evaluation that IBOVESPA every time that It went to negative returns, by the other hand whenever IBOVESPA rose up to high returns PE funds registered values a little below it. Through a linear regression was possible to confirm that these two variables weren't dependent, but this regression showed also that when we evaluate just positive returns there is some dependency, but when we focus on negative returns PE funds seem to do much better, and, in average, never registered returns bellow -1%.

The analysis to the PE industry in Brazil also demonstrated that the 10 biggest funds are a restrict group and very different from the rest. The top 10 funds represent 36% of the total assets under management and these funds are also characterized for investing mainly in buyout and PIPE operations. This group is an exception to what it is the general characterization of the PE funds acting in Brazil, the average NAV for a PE fund in Brazil is only 64 millions of r$, and 80% of the PE funds have a NAV less than 310 Millions of r$. The top 10 funds in terms of returns in 2010 are composed mainly by funds bellow 310 Millions of r$, which represents that not only the biggest funds are growing, but also that the Brazilian industry in whole is growing.

The rise of PE in Brazil was driven by many factors, but there are some that took a vital importance. First the fragmented industry that was the incentive for PE funds, since this is a huge opportunity of acting in the capitalization and expansion of a market that is composed for so many SME. Not less important is the low level of infrastructure that the country has, it's necessary to improve it a lot and another opportunity appears. The organization of the 2014 World Cup and the Olympic Games in 2016 is the guarantee that Brazil will continue to invest in order to improve it.

After a decade of reforms Brazil was able to growth and became a stable economy, which was the most important factor in the boom of PE. This economic growth of Brazil permitted the harmonization of the inflation and interest rates to similar values of the main world economies. Obviously the decrease of interest and inflation rates drove the investors' attention to other alternatives, and then PE emerged as one of the most promising alternatives.

The question now is not about how PE in Brazil is growing but it is how long this growth will last, and to respond to that, maybe the best answer is to take a look at the Portuguese industry. If we think that in Portugal the PE industry represents something like 2% of the GDP (CMVM, 2009) and if we take into account that this industry in Portugal is still undeveloped; then we can take a look to Brazil and see that the PE industry represents, as well, approximately 2% of the GDP (ABVCAP, 2010) and that only means, due to the Brazilian recently evolution, that PE in Brazil will continue to growth in a huge scale in the next few years because it is still in a very premature phases.

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8. Annex

#	Private Equity Funds	NAV (r$)
1	BERTIN FIP	4,949,263,459
2	ENERGIA SÃO PAULO FIP	3,171,220,877
3	DESENVIX FIP	2,886,667,819
4	FIP VOLLUTO	2,056,008,606
5	FIP DA SERRA	1,867,824,042
6	PROT - FIP	1,486,811,287
7	FIP COLISEU	1,432,392,468
8	GJP FIP	1,278,694,414
9	BROOKFIELD BRAZIL RETAIL FIP	1,231,045,048
10	APX BRAZIL FIP	1,219,770,007
11	GENERAL ATLANTIC FIP	1,161,562,534
12	FIP BRASIL ENERGIA	1,133,861,354
13	FLORESTAL FUNDO DE INVESTIMENTOS PARTICIPAÇÕES	1,113,766,589
14	CAIXA FIP CEVIX	1,067,818,876
15	FIP PCP	991,858,252
16	INFRABRASIL FIP	961,869,909
17	STAR FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	924,079,359
18	FUNDO DE EDUCAÇÃO PARA O BRASIL - FIP	832,991,847
19	HANKOE FIP	829,559,732
20	BTC FIP	720,595,618
21	ZMF FIP	712,418,965
22	BTG PACTUAL SAÚDE FIP	627,676,758
23	FIC FIP JMF	559,683,275

24	GIF - III FIP	549,968,434
25	OPPORTUNITY HOLDING FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	540,841,630
26	MULTINER FIP	536,937,864
27	GIF II - FIP	536,606,344
28	EISA FIP	504,194,827
29	BRZ ALL - FIP	502,211,323
30	CAIXA FIP SANEAMENTO	500,200,837
31	AÇÚCAR E ÁLCOOL FIP	497,496,935
32	BOTAFOGO FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	488,135,669
33	ENERGIA PCH FIP	478,577,699
34	ETB FIP	473,597,041
35	INFINITY FIP	450,135,477
36	VINCITORE FIP	450,135,477
37	LAJOTA FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	450,120,168
38	BROOKFIELD BRAZIL TIMBER FIP	442,036,354
39	LOGÍSTICA BRASIL - FIP	438,043,891
40	SOFI FIP	422,003,777
41	COWAN FIP	420,070,282
42	PROSPERITAS II FIP	405,278,382
43	ARROW - FIP	387,862,865
44	FUNDO DE INVESTIMENTOS EM PARTICIPAÇÕES - BRASIL EMPREENDIMENTOS	386,509,540
45	PATRIA - BRAZILIAN PRIVATE EQUITY III FIP	367,280,673
46	AÇÚCAR E ÁLCOOL II FIP	352,274,188
47	VALE FLORESTAR FIP	351,083,575
48	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES RG ESTALEIROS	345,920,185
49	FIP BRASIL DE GOVERNANÇA CORPORATIVA	340,591,778
50	AG ANGRA INFRA-ESTRUTURA FIP	329,010,190
51	GENOA FIP	326,981,316
52	CULTURINVEST FIP 1 - FIP	319,978,888
53	PATRIA ENERGIA FIP	316,936,213
54	GAMA FIP	289,711,194
55	FIP MULTISETORIAL PLUS	280,832,818
56	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES BRASIL GESTÃO E ADMINISTRAÇÃO	280,269,661
57	WANKA FIP	247,609,894
58	NALA FIP	244,611,142
59	FIP - INSTITUIÇÕES FINANCEIRAS E DE VAREJO	243,938,496
60	VILA RICA I FIP	242,913,656
61	CAIXA FIP AMAZÔNIA ENERGIA	237,741,475
62	AC2 FIP	214,375,612
63	FIP BCSUL VERAX 5 PLATINUM	213,093,396
64	TPG VI FIP	202,742,021
65	FIP ARCO-IRIS	201,499,904
66	GIF RUMO FIP	200,543,270
67	PÁTRIA REAL ESTATE FIP	196,884,073

68	FIP CS INFRA	196,705,196
69	AGFA FIP	195,322,523
70	HMV FIP	194,735,739
71	FIP GOVERNANCA E GESTAO	193,892,917
72	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES GOVERNANÇA E GESTÃO II	190,418,353
73	PATRIARCA PRIVATE EQUITY FIP	186,768,554
74	FIP CAIXA AMBIENTAL	185,424,817
75	AKKA FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	183,411,507
76	BR EDUCACIONAL FIP	181,349,809
77	BRASIF FIP	178,010,111
78	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES GAMMA	173,999,153
79	FIP BCSUL VERAX EQUITY 1	171,802,981
80	SCG I FIP	165,593,275
81	LUCE BRASIL FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	165,491,861
82	PROSPERO AF INVEST FIP	154,264,768
83	FIP BRB - CORUMBÁ	154,032,768
84	CAPITAL MEZANINO FIP	150,599,999
85	FIP TERRA VIVA - FIP	147,473,716
86	FIP PROGRESSO	145,929,120
87	SÃO MIGUEL - FIP	142,171,376
88	IDEIASNET FIP I	139,761,342
89	AG INVEST FIP	133,728,038
90	F GULF I IP	132,974,600
91	FIP ARACUÍ	129,561,468
92	MSP FIP	127,653,674
93	GMT FUNDO DE INVESTIMENTO EM PARTICIPACOES	123,786,472
94	SCPL BRAZIL REAL ESTATE I FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	120,450,989
95	RIO BRAVO INVESTIMENTOS FIP	118,076,844
96	BRASOIL FIP	116,376,700
97	BJJ FIP	115,835,671
98	SILVER LAKE FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	114,322,576
99	TRISCORP ATIVOS FLORESTAIS FIP	113,805,532
100	BRASIL MEZANINO INFRA-ESTRUTURA FIP	112,750,835
101	FIP MMC	112,505,497
102	URBIS FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	111,879,843
103	GLOBAL EQUITY PROPERTIES FIP	107,773,843
104	PIRATININGA FUNDO DE INVESTIMENTO EM QUOTAS DE FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	105,889,204
105	ACTIS FR FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	100,538,258
106	BTG PACTUAL VANGUARDA FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	100,485,431
107	SQUARESTONE BRASIL II (SB2) - FIP	97,421,374
108	FIP BIRD	96,441,722
109	CRP VII FIP	95,514,756
110	RG SALAMANCA I FIP	92,968,400
111	OLEO E GAS FIP	92,508,690

112	MAG - FIP	91,837,780
113	WP X BRASIL FIP	90,082,554
114	FIP MULTISETORIAL	86,906,410
115	GREEN CAPITAL PETRO FIP	84,030,695
116	FUNDO BRASCAN DE PETROLEO, GAS E ENERGIA - FIP	83,624,475
117	FIP BANIF PRIMUS REAL ESTATE	82,370,681
118	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES PETRA	81,788,592
119	FORT FIP	79,875,704
120	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES PDG I	79,465,406
121	FIP TAG	78,701,194
122	CENTRAL VEREDAS - FIP	76,834,859
123	KINEA I REAL ESTATE EQUITY FIP	74,441,119
124	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES VOTORANTIM AGEM	74,131,161
125	BTG PACTUAL ECONOMIA REAL FIP	74,101,746
126	INHAMBU II FUNDO DE INVESTIMENTO EM PARTICIPACOES	72,519,849
127	FUNDO ARTESIA SERIE VERDE DE INVESTIMENTO EM PARTICIPAÇOES	71,729,420
128	FIP FRANCHISING VENTURES	71,131,385
129	FUNDO DE INVESTIMENTO EM PARTICIPACOES BSSF II	70,998,833
130	PÁTRIA REAL ESTATE II - FIP	70,616,968
131	ÁGUIA BRANCA FIP	70,148,952
132	FUNDO VICTORY DE INVESTIMENTOS EM PARTICIPAÇÕES	67,877,199
133	FINANCIAL INVESTIMENTOS FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	66,961,194
134	F PRIVATE EQUITY PDG IP	66,742,352
135	FIP G3 BRASIL INVESTOR I	64,448,112
136	P2 BRASIL INFRAESTRUTURA FIP	64,391,563
137	F JACUMÃ IP	63,754,583
138	GIF I - FIP	63,492,284
139	RB CAPITAL FIP	62,830,764
140	QUANTUM - FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	62,406,091
141	VOTORANTIM G&K FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	61,614,547
142	SCARSDALE - FIP	60,983,611
143	FIP BRAZIL SPECIAL SITUATIONS FUND II	60,617,664
144	TFB FIP	59,288,419
145	F ARTÉSIA SÉRIE AZUL IP	59,243,228
146	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES GREEN CAPITAL I	58,274,423
147	FIP BANIF PRIMUS INFRA-ESTRUTURA	57,570,321
148	ÁTICO GERAÇÃO DE ENERGIA - FIP	57,201,807
149	MARAÚ FIP	56,484,168
150	GBP I FIP	54,351,403
151	BRAPINVEST II FIP	52,125,026
152	CARMEL FIP	51,405,110
153	FIP BANIF REAL ESTATE BRASIL	51,091,815
154	FIP SOCCER BR 1	50,036,773
155	FIP RAH FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	49,337,316

156	MCL FUNDO DE INVESTIMENTO EM PARTICIPACOES	49,092,346
157	FLORESTAS DO BRASIL FIP	48,886,270
158	SALUS FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	47,835,392
159	FIP LAKE	47,486,484
160	FIP BRASIL EQUITY II	47,332,678
161	METODO FIP	46,604,435
162	ROVI AF INVEST FIP	46,338,603
163	GPCP4 FIP	46,319,615
164	RIO BRAVO ENERGIA I FIP	45,121,122
165	PYXIS FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	44,423,336
166	MULTISETORIAL SUDESTE FIP	44,394,210
167	FUNDO DE RASTREAMENTO DE VEICULOS PARA O BRASIL - FIP	44,271,634
168	TRINDADE AF INVEST FIP	43,836,212
169	CLARITAS PE I FIP	43,405,458
170	FUNDO BRASIL DE INTERNACIONALIZAÇÃO DE EMPRESAS - FIP	42,859,128
171	GARDENS FUNDO DE INVESTIMENTO EM PARTICIPAÇÃOES	41,473,223
172	INVESTIDORES INSTITUCIONAIS FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	41,374,966
173	FOCO CONQUEST FIP	40,627,491
174	MDC I FIP	40,402,122
175	ECP PRIVATE EQUITY BRAZIL FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	40,372,643
176	TRX 1 FIP	38,580,683
177	SAGA PELICAN FIP	35,958,310
178	BOREAL FIP	35,945,402
179	BRASIL AGRONEGÓCIO - FIP	34,400,745
180	PIRAIBA FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	32,338,017
181	TELLUS REAL ESTATE - FIP	31,067,981
182	UN5 FIP	30,887,777
183	PROSPERITAS III FIP	30,443,119
184	FIP CORES	30,023,774
185	ALPHA GENESIS FIP	29,334,003
186	NORTE ENERGIA FIP	28,878,148
187	VEG FIP	26,596,037
188	FRETUS FIP	26,010,512
189	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES C.A.	25,105,760
190	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES VOTORANTIM AGEM ELIS	24,937,304
191	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES VOTORANTIM AGEM MM	24,937,304
192	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES VOTORANTIM AGEM EMC	24,675,893
193	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES VOTORANTIM AGEM PM	24,675,893
194	BRAPINVEST FIP	24,514,816
195	FIP FIGAS	24,003,141
196	FIP CEDRO	23,963,614
197	BTG PACTUAL PRINCIPAL INVESTMENTS FIP	23,921,906
198	ITACOATIARA FIP	23,311,008
199	FIP NORDESTE ENERGIA	23,286,329

200	FOCO FIP	23,277,268
201	FUNDO FINANCIAL II - FIP	23,263,396
202	CAPITAL MEZANINO PRIVADO I FIP	22,821,282
203	SERRA AZUL FIP	21,511,590
204	F TRIÂNGULO IP	21,331,817
205	CASA & VÍDEO FIP - CONTROLE	20,160,555
206	BRAPINVEST III FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	20,106,259
207	CRT FIP	18,579,821
208	FUNDO DE SERVIÇOS LOGÍSTICOS PARA O BRASIL - FIP	16,455,043
209	FAMA PRIVATE EQUITY I - FIP	15,967,066
210	TRX REALTY III FIP	15,805,331
211	SAPHYR - FIP	15,029,701
212	FIP MIRA REALTY	14,994,278
213	FIP - FIP GERAIS	13,900,119
214	SANTA BÁRBARA FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	13,826,552
215	FUNDO ARTESIA SERIE BRANCA DE INVEST.PARTICIPAÇOES	13,739,478
216	POLARIS FIP	12,937,002
217	NEO CAPITAL MEZANINO FIP	12,912,295
218	GAP REALTY II FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	12,115,841
219	PATRIA ECONOMIA REAL - FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES'	11,911,706
220	GAP REALTY I FIP	11,804,585
221	SÃO JOAQUIM FIP	11,357,138
222	CSHG REALTY BC II FIP	11,109,240
223	VITÓRIA REAL ESTATE FIP	10,672,464
224	FIP LDI	10,581,445
225	G5 LABEL - FIP	10,554,203
226	BATUTA FIP	10,544,829
227	PROSPERITAS I - FIP	10,473,846
228	ASCET I - FIP	10,234,147
229	TECON FIP	10,088,667
230	CININVEST FIP	8,896,704
231	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES OREY I	8,380,130
232	FIP GGPAR	7,634,836
233	TECH ONE - FIP	7,531,726
234	FIP MACHU PICCHU	6,732,561
235	PÁTRIA FIT - FIP	6,555,124
236	BRASIL SUSTENTABILIDADE - FIP	6,393,981
237	EOS FIP I	6,106,652
238	CRP BG FIP	6,058,335
239	MODAL I FIP	5,914,440
240	FIP ÓRCADAS	5,850,322
241	STANDISH FIP	5,509,659
242	GIBRALTAR FIP	5,241,670
243	XN FIP	5,056,913

244	G.A. BRASIL FIP	4,775,293
245	BCRE DEVELOPMENT FUND I FIP	4,406,450
246	SANGOLD FIP	3,863,661
247	FIP VELA	3,255,156
248	BREOF FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	2,919,314
249	POLO REAL ESTATE FIP	2,701,778
250	PÁTRIA CARTÕES CORPORATIVOS - FUNDO DE INVESTIMENTO EM PARTCIPAÇÕES	2,292,164
251	FIP DESENVOLVIMENTO - FIP	2,091,593
252	BRASIL PRIVATE EQUITY III - FIP	1,904,869
253	FIP - BRASIL DE SERVIÇOS	1,807,770
254	TELE FIP	1,727,086
255	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES MULTISUCOS	1,622,961
256	APICE FIP	1,465,396
257	RB CRÉDITO II FIP	1,388,898
258	VISION AGRO II FUNDO DE INVESTIMENTO EM PARTICIPACOES	1,278,951
259	GP DESENVOLVIMENTO FIP	1,258,362
260	KINEA I PRIVATE EQUITY FIP	1,070,386
261	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES ZARAGOZA	1,005,996
262	PRIV FIP	659,211
263	ATLANTICA FIP SAUDE	558,827
264	CSHG REALTY BC FIP	417,390
265	MERITI FIP	411,151
266	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES TURISMO BRASIL	258,260
267	TRX REALTY II FIP	252,117
268	TOTEM INFRA BRASIL FIP	132,706
269	FIP RB REALTY CAPITAL	66,607
270	VISION AGRO FIP	64,773
271	FIP COALA	15,823
272	AC4 FIP	n.a.
273	ACTIS BD FIP	n.a.
274	ACTIS CP FIP	n.a.
275	ADINVEST ENERGIA - FIP	n.a.
276	ADVERTISING FUNDO DE INVESTIMENTO EM PARTICIPACOES	n.a.
277	ARIA CAPITAL REAL ESTATE - FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
278	ATENAS FIP	n.a.
279	ÁTICO STEEL CHAIN - FIP	n.a.
280	AVG AF INVEST FIP EM PARTICIPAÇÕES	n.a.
281	BANCO DO NORDESTE FIP - PROJETOS	n.a.
282	BARBARA LUNI REAL ESTATE FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
283	BCRE DEVELOPMENT FUND II FIP	n.a.
284	BHCS FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
285	BIJUPIRÁ FIP	n.a.
286	BKK REALTY FIP	n.a.
287	BR PARTNERS I FIP	n.a.

288	BRAPINVEST III FIP	n.a.
289	BRASREALTY FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
290	BRAZIL COMMUNICATIONS - FIP	n.a.
291	BRAZIL GOLDEN ART - BGA FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
292	BROOKFIELD BRAZIL AGRILAND FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
293	BTG PACTUAL DELTA FIP	n.a.
294	BTG PACTUAL DELTA II FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
295	BVIA FIP	n.a.
296	CORCOVADO FIP	n.a.
297	CREARE FIP	n.a.
298	DIBRA - FIP	n.a.
299	DYNAMO BRASIL FIP	n.a.
300	ECO ENERGY ENERGIA FIP EM INFRAESTRUTURA	n.a.
301	ESTRUTURA II - FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
302	ESTRUTURA III - FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
303	FARMÁCIAS E DROGARIAS FIP	n.a.
304	FIP - ADVENT DE PARTICIPAÇÕES	n.a.
305	FIP - BRASIL DE VAREJO	n.a.
306	FIP AMAZONIA ENERGIA II	n.a.
307	FIP BANIF REAL ESTATE II	n.a.
308	FIP BASE BRAZILIAN ASSETS STRATEGIC EQUITY	n.a.
309	FIP BRASIL BROKERS	n.a.
310	FIP BRAZIL GROWTH AND DEVELOPMENT	n.a.
311	FIP BTGPCP	n.a.
312	FIP CIMENTOS	n.a.
313	FIP DOVER	n.a.
314	FIP DVA	n.a.
315	FIP ENERGIA PARA O DESENVOLVIMENTO	n.a.
316	FIP ENSEADA	n.a.
317	FIP GALLEAS BIODIESEL	n.a.
318	FIP NEOGRID FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
319	FIP ULTRA 7	n.a.
320	FIP VITIS-VINIFERA	n.a.
321	FIP VITORIA SHOPPINGS	n.a.
322	FUNDAMENTUM AF INVEST - FIP	n.a.
323	FUNDO DE DIAGNÓSTICOS PARA O BRASIL - FIP	n.a.
324	FUNDO DE INVESTIMENTO EM PARTICIPAÇÃO PROPTER	n.a.
325	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES - BRASIL DE PRIVATE EQUITY	n.a.
326	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES - BRASIL DE PRIVATE EQUITY II	n.a.
327	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES - BRASIL DE PRIVATE EQUITY III	n.a.
328	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES - LIQUI	n.a.
329	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES 01 DE DEZEMBRO	n.a.
330	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES ANGLO AMERICANO	n.a.
331	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES BLACKBURN	n.a.

332	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES BRB ENERGIA	n.a.
333	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES DONNER	n.a.
334	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES DUNDEE	n.a.
335	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES ENERGIAS RENOVÁVEIS	n.a.
336	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES ESTORIL	n.a.
337	FUNDO DE INVESTIMENTO EM PARTICIPACOES FORMA	n.a.
338	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES GX	n.a.
339	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES ITACARÉ CAPITAL II	n.a.
340	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES LANDBANK HABITAÇÃO POPULAR	n.a.
341	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES MÁLAGA	n.a.
342	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES MELBOURNE	n.a.
343	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES MELROSE	n.a.
344	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES MONTECARLO	n.a.
345	FUNDO DE INVESTIMENTO EM PARTICIPACOES NSG BRAZIL INFRAESTRUTURA	n.a.
346	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES POTENTIA BIOENERGY	n.a.
347	FUNDO DE INVESTIMENTO EM PARTICIPACOES RB CAPITAL PORTFOLIO II	n.a.
348	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES SILVERSTONE	n.a.
349	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES SONDAS	n.a.
350	FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES TAJ MAHAL	n.a.
351	FUNDO DE TERCEIRIZAÇÃO DE SERVIÇOS PARA O BRASIL FIP	n.a.
352	FUNDO GULF II DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
353	GEAL FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
354	GERIBÁ VD ECOGEN FIP	n.a.
355	GIF - BRADSEG III FIP	n.a.
356	GIF IV FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
357	GPCP5 I - FIP	n.a.
358	HEBRON FIP	n.a.
359	HOME CENTERS BRASIL FIP	n.a.
360	HOTEL VILLAGE DO LAGO - FIP	n.a.
361	IBEX FIP	n.a.
362	IDEE - FIP	n.a.
363	INDÚSTRIAS SUCROALCOOLEIRAS FIP	n.a.
364	INSIGHT FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
365	ITAPUÃ FIP	n.a.
366	JK AF INVEST FIP	n.a.
367	KINEA CO-INVESTIMENTO I FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
368	LANDMARK REAL ESTATE I FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
369	LEBLON EQUITIES FIP	n.a.
370	LEBLON EQUITIES PARTNERS IV FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
371	LPO CAPITAL FIP	n.a.
372	MAUÁ SEKULAR I DESENVOLVIMENTO IMOBILIÁRIO FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
373	MÁXIMA IMOBILIARIO I FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
374	MB FUNDO DE INVESTIMENTO EM PARTICIPAÇÃO	n.a.
375	MEDIA FIP	n.a.

376	MSO FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
377	NEO VISTA REAL ESTATE - FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
378	NORTHVIEW FIP	n.a.
379	NOVA MILANO FIP	n.a.
380	NSG VAREJO E SAÚDE FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
381	OCH-ZIFF BRAZIL REALTY FIP	n.a.
382	OP I FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
383	OPORTUNITY HOLDING II FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
384	OUTSTANDING-X FIP	n.a.
385	PENÍNSULA FIP	n.a.
386	PROSPERITY I - FIP	n.a.
387	QUEST SGGC REAL ESTATE I - FIP	n.a.
388	RB CAPITAL COMMERCIAL PROPERTIES II - FIP	n.a.
389	RB CAPITAL DESENVOLVIMENTO RESIDENCIAL II FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
390	RB CAPITAL REAL ESTATE I - FIP	n.a.
391	REDENTOR FIP	n.a.
392	RIO AGROBUSINESS FIP	n.a.
393	RIO BRANCO REAL ESTATE FIP	n.a.
394	RIVIERA GR INDUSTRIAL FIP	n.a.
395	RS FIP	n.a.
396	SALMON FIP	n.a.
397	SCG II FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
398	STR FIP	n.a.
399	STR III - FIP	n.a.
400	SULLIVAN FIP	n.a.
401	TARPON FIP I	n.a.
402	TER FIP	n.a.
403	TMG FIP	n.a.
404	TOSCANA II FIP	n.a.
405	TRIVELLA M3 FIP	n.a.
406	VINCI CAPITAL PARTNERS II FUNDO DE INVESTIMENTO EM PARTICIPAÇÕES	n.a.
407	VISION AGRO III FIP	n.a.
408	WAHOO FIP	n.a.
409	XANGÔ - FIP	n.a.