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Private Equity and Venture Capital in Brazil: Dinamics and Results of ECPF – Emerging Companies Participation Funds

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PRIVATE EQUITY AND VENTURE CAPITAL IN BRAZIL: DINAMICS AND RESULTS OF ECPF - EMERGING COMPANIES PARTICIPATION FUNDS

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ABSTRACT

This article aims to analyze funds of// Private Equity / Venture Capital (PE/VC), in Brazil.

We used as an example the operation and results of the Venture Capital CRP VI Venture – Participation Investments Fund (PIF) in Emerging Companies. The fund was launched by the mentor CRP, to invest in innovating companies, with differentiated projects and promoting evolution of the south region in Brazil, with its 8 companies headquartered in Rio Grande do Sul State. The initial committed Capital is R$ 61,5 million subsequently adjusted to R$ 59,44 million, created in Dec/2005 and ended in Dec/2018. The results obtained were unsatisfactory, motivated by the crisis in the Brazilian economics 2015 – 2017, in addition to the excessive regionality of the fund. The fund´s innovation rate was low, but also influenced by the crisis, preventing investments in cutting-edge sectors, with greater innovation risks.

Keywords: “Private Equity”; “Venture Capital”; Participation Investments Fund; PIF.

1. INTRODUCTION

From the economic opening in the 90´s, Brazil returned to integrate itself in the international financial market, mainly regarding investment, business development and management. Initially, there was a slightly advance in PE/VC, but, with the Real Plan (1994) and privatizations, a strong movement to consolidate investments in PE/VC began making its investment cycles more solid.Before the Real Plan, several factors in Brazil made it difficult to take a higher risk (hyperinflation, financial instabilities, protectionism, closed capital markets to foreign investors), fact that led to the stagnation of PE/VC for many years.

According to the 2nd Brazilian Census of Private Equity and Venture Capital, elaborated by ABDI (Brazilian Industrial Development Agency) together with FGV (Getulio Vargas Foundation), the main

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investors are pension funds, through Equity Investment Funds ("EIFs"), according to MSCI (Mobile Securities Commission), Instruction 578/2016.

We observe a large increase in Brazilian startupsusing PE/VC investments. Among the highlights are Fintechs, which are already causing a fear to traditional financial institutions, as well as Agrotechs, which strengthen Brazil´s position as a reference in world´s agribusiness.

1.1 Private Equity and Venture Capital in Brazil

Brazil is characterized by its high cost of capital, scarce production factor in peripheral economies. Otherwise, the chronic fiscal imbalances observable from the Plan of Goals (the 50´s), contribute to worsen this condition. For small/medium sized companies or in pre-operational phase, the difficulty of accumulation through equity and high cost of credit, the EIFs appear as an alternative, that is, PE/VC funds.

PE/VC investments are, by nature, long term, where financial investments are made in companies, usually of closed capital, in early stage, which present promising growth expectations, great appreciation and profitability obtained by the subsequent divestment.

The big difference between PE and VC is the size of the companies in question (MEIRELLES et al. 2008). The term Private Equity is broad and can encompass the Angel Capital, Venture Capital, Buyout. The term Venture Capital is associated to investments in companies that are in early stages, still in the business plan phase or at the beginning of its activities.

According to ABDI[3] (2009, pg. 42):

> Although it is clear that VC is a type of PE investment, the terms began to be used with different meanings over the years. PE investments were, traditionally, divided between VC and Buyout, the first referring to a small shareholding in companies at an early stage of development (...)

That is, the term Private Equity is associated with companies in an already operational stage.

1.2 Stage of invested companies and types of Private Equity

In Brazil, in companies invested by por Venture Capital, annual revenues can vary between US$ 0 and US$ 15 million. Companies invested by Private Equity, the revenues can vary between US$ 15 million and US$ 50 million/year (KAMEYAMA, 2008).

The different investment segments have different attributes and characteristics. Martelanc (2010) presents the main differences:

Table 1 – Atributes of Different Investment Segments

Attribute	Angel	Venture Capital	Private Equity'	Public Equity
Company Size	Small	Small or Medium	Medium or Large	Large
Corporate Internship	Pre-operational or Initial (seed)	Initial/accelerated growth (start-up)	Restructuring or Expansion	Mature Companies/Moderated Expansion
Sectors – typical targets	With high technology/innovative	With high technology/innovative	all	all
Return and Risk Objectives	High returns and risks/small	High returns and risks	Medium returns and risks	Medium returns and risks

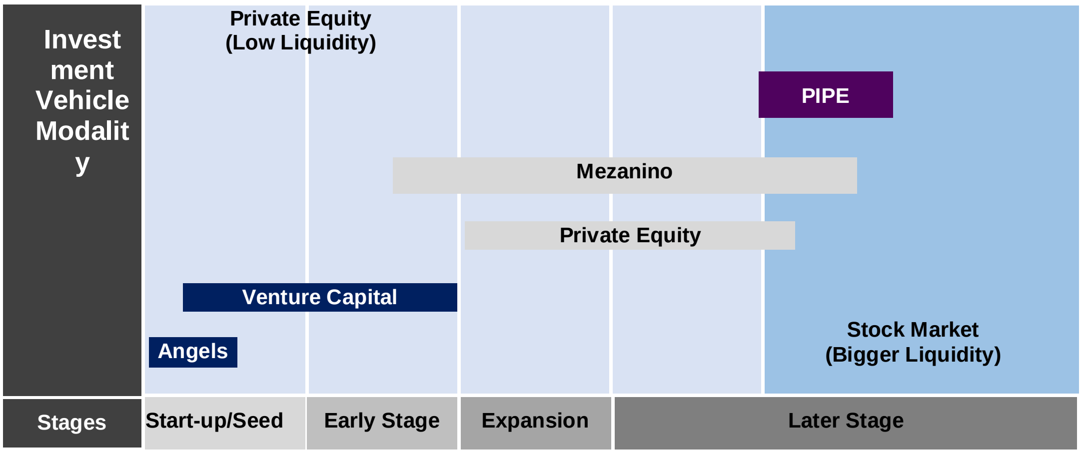
[3]ABDI – Agência Brasileira de Desenvolvimento Industrial

	contributions			
Liquidity	Low/Sale in Private Negotiation	Low/Sale in Private Negotiation	Low/Sale in Private Negotiation	High/Sale in the Stock Exchange
Diversification for the Investor	Low/normally Individual investor with a small portfolio	Medium/normally up to ten investments per Fund	Medium/normally up to ten investments per Fund	High/Portfolio of shares of numerous companies
Value added by the Investor	Capital, strategic support and in management and operation	Capital, strategic support and in management	Capital and strategic support	Capital
Exit Strategy	Venture Capital Fund, strategic or repurchase by the company/founders	Private Equity Fund or strategic	Strategic or Capital Market	Capital Market

Source: MARTELANC, 2010, Pag. 236

In figure 1, elaborated by GVcepe (2008), it is possible to verify in which stages of the companies the types of investments are concentrated. Venture Capital investments are between Seed, Start-up and Early Stage.

Figura 1–Investment Mode by Stage



Source: GVcepe. (2008) "Panorama da Indústria Brasileira de Private Equity e Venture Capital"

1.3 Risks and Returns

PE/VC are high-risk investments, due to the very insipient stage of companies with low levels of assets, perspectives of some years of negative cash flow and difficulties in obtaining credit. To compensate for such risks, high costs of structuring, negotiation and monitoring, in addition to low liquidity, management organizations carry out judicious selection processes, such as due diligences and can make investments in phases, subjected to previously established goals and results (ABDI, 2011)

Regarding returns in PE/VC, a study of ABDI together with FGV[4] (2011), gathered responses from 71 management organizations (30% of the universe of fund managers operating on the Brazilian Market in December, 2009) and compiled data on expected returns expected by a development stage:

Table 2–Brazil: Expected return by development stage

Development Stage	Expected Return (%)/year			Responses by Stages
	Minimum	Maximum	Medium	
Seed	45,9	114,5	80,2	18

[4]ABDI and FGV (2011). "A indústria de Private Equity e Venture Capital – 2º Censo Brasileiro"

Startup	41,5	79,7	60,6	17
Venture Capital - Early Stage	32,8	110,0	71,4	54
Private Equity - Expansion	23,0	32,5	27,8	16
Private Equity - Later Stage	15,6	24,3	20,0	21

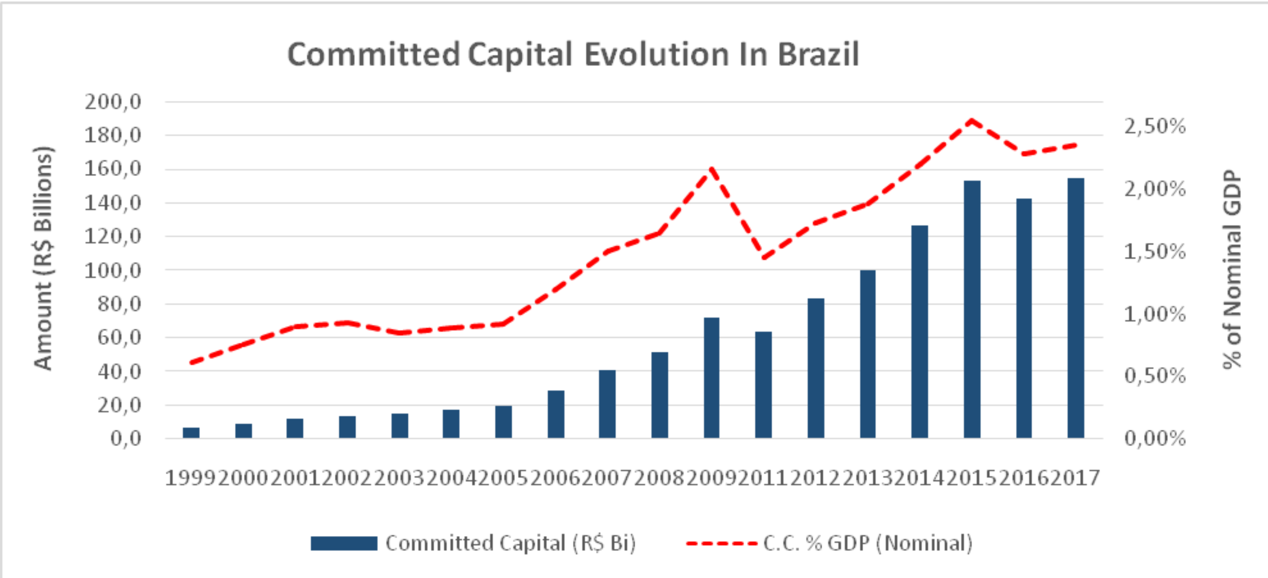
Source: adapted fromABDI e FGV (2011) "A Indústria de Private Equity e Venture Capital – 2 Censo Brasileiro"

1.3.1 Evolution

In the PE/VC segment, managers analyze several sectors and/or companies with great growth potential and financial returns, adjusted to high risks. After such prospection, the investment fund´s proposal is presented to investors. Capital contributions are made with the commitment to invest a certain amount, the "Committed Capital".

In the study by Carvalho, Ribeiro and Furtado (2005), the Committed Capital was used as metric to verify the Evolution of the PE/VC activity.

Figure2– Evolution of the Committed Capital in Brazil[5]



Own Elaboration. Sources: ABDI/ FGV (2011); KPMG/ABVCAP (2017); IBGEand BACEN

There is a clear Evolution and development of PE/VC in Brazil. The committed capital allocated in the Brazilian Market grew at an average rate of 21,32% per year, from 1999 to 2017. In the periods 2009-2011 and 2015-2016 there were declines in the growth rate, caused by the global economic crisis in 2008-2009 and the Brazilian economy crisis between the years of 2015-2016, when there was the biggest drop in

[5]In the study elaborated by ABDI/FGV, the annual amounts of committed capital on the PE/VC Brazilian industry, from 1999 to 2009, were presented in US$ Billions. In the study elaborated by KPMG/ABVCAP, from 2011 to 2018, the same were presented in R$ Billions.
The conversion from US$ to R$ on the annual amounts from 1999 to 2009 was carried out using the commercial dollar averages for each year in question.
No data were found regarding the committed capital allocated in 2010.

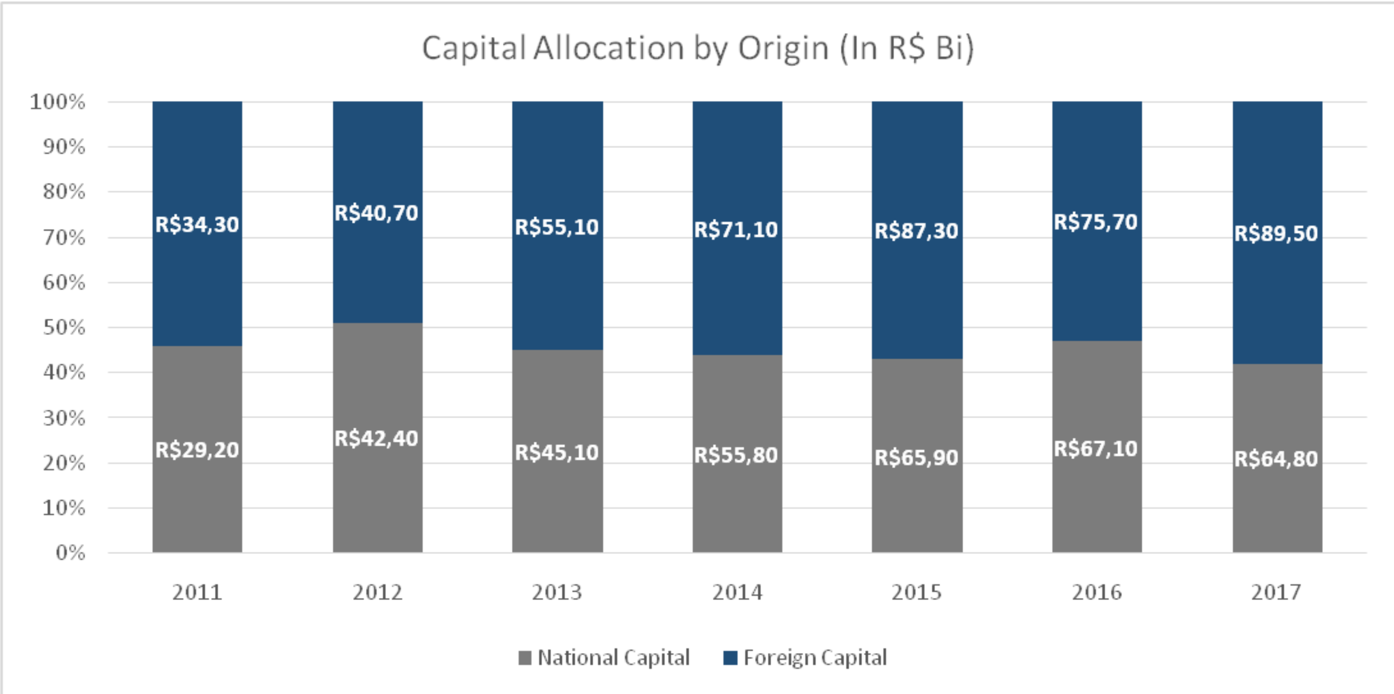
the GDP in republican history[6]. Even so, the PE/VC segment showed growth in the allocation of committed capital.

[6] Fall of -3,77% and -3,59% in the variation of the real GDP in 2015 and 2016, respectively (IBGE).

1.3.2 Origin of the allocated capital

According to a study published by KPMG/ABVCAP[7] (2017), between 2011 and 2017, except in 2012, most of the origin of the committed capital allocated in Brazil was originated from outside the country, according to the data presented on figure 3.

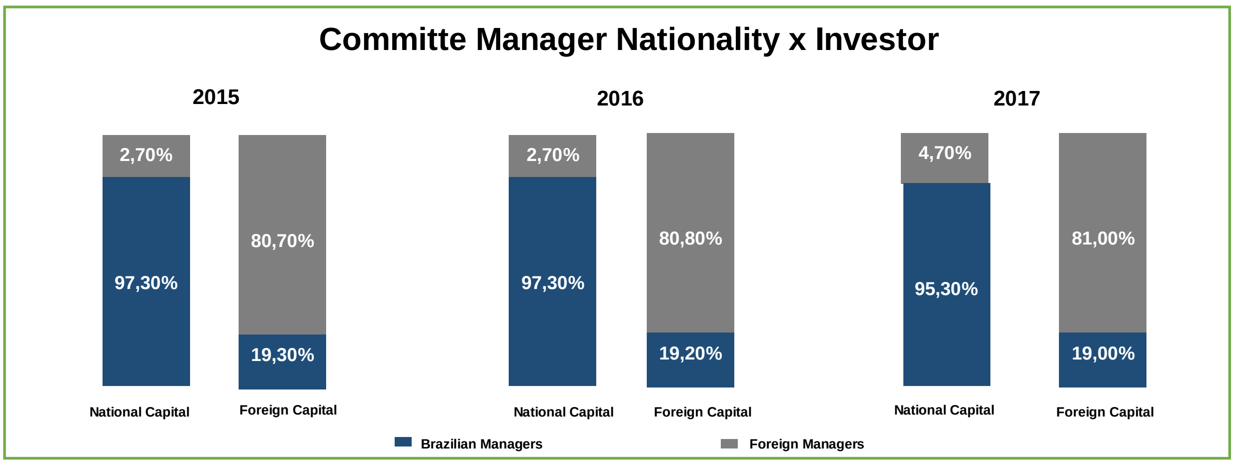
Figure3–Capital Allocation by Origin



Own Elaboration. Source: KPMG/ABVCAP (2017) "Consolidação de dados –Indústria de Private Equity e Venture Capital no Brasil"

The importance of foreign capital in the Brazilian PE/VC industry is relevant. The annual growth rate between 2011-2017 for the national committed capital was 14,2%, and for the foreign origin was 17,3%. However, most of the committed capital has always been operated by Brazilian managers, as it can be seen in the picture below.

Figure 4 – Management of Committed Capital by Origin



[7]ABVCAP – Associação Brasileira de Private Equity & Venture Capital

Source: KPMG/ABVCAP (2017) "Consolidação de dados – Indústria de Private Equity e Venture Capital no Brasil"

When the data is checked, the nationality of the management of the committed capital, allocated in Brazil between 2015 and 2017, by amounts, are shown in table 3

Table 3 – Nationality of the management of the allocated committed capital (In R$ Bi)

2015			
Allocation of National Origin	65,9	Capital under Brazilian Management	81,0
Allocation of Foreign Origin	87,3	Capital under Foreign Management	72,2
Total	**153,2**	**Total**	**153,2**

2016			
Allocation of National Origin	67,1	Capital under Brazilian Management	79,8
Allocation of Foreign Origin	78,7	Capital under Foreign Management	63,0
Total	**142,8**	**Total**	**142,8**

2017			
Allocation of National Origin	64,8	Capital under Brazilian Management	78,8
Allocation of Foreign Origin	89,5	Capital under Foreign Management	75,5
Total	**154,3**	**Total**	**154,3**

Own Elaboration. Source: KPMG/ABVCAP (2017) "Consolidação de dados – Indústria de Private Equity e Venture Capital no Brasil"

It appears that the management of committed capital, from 2015 to 2017, was carried out mainly by managers of national origin with the percentages of 52,85%, 55,88% and 51,07%.

1.3.3 Types of Investors

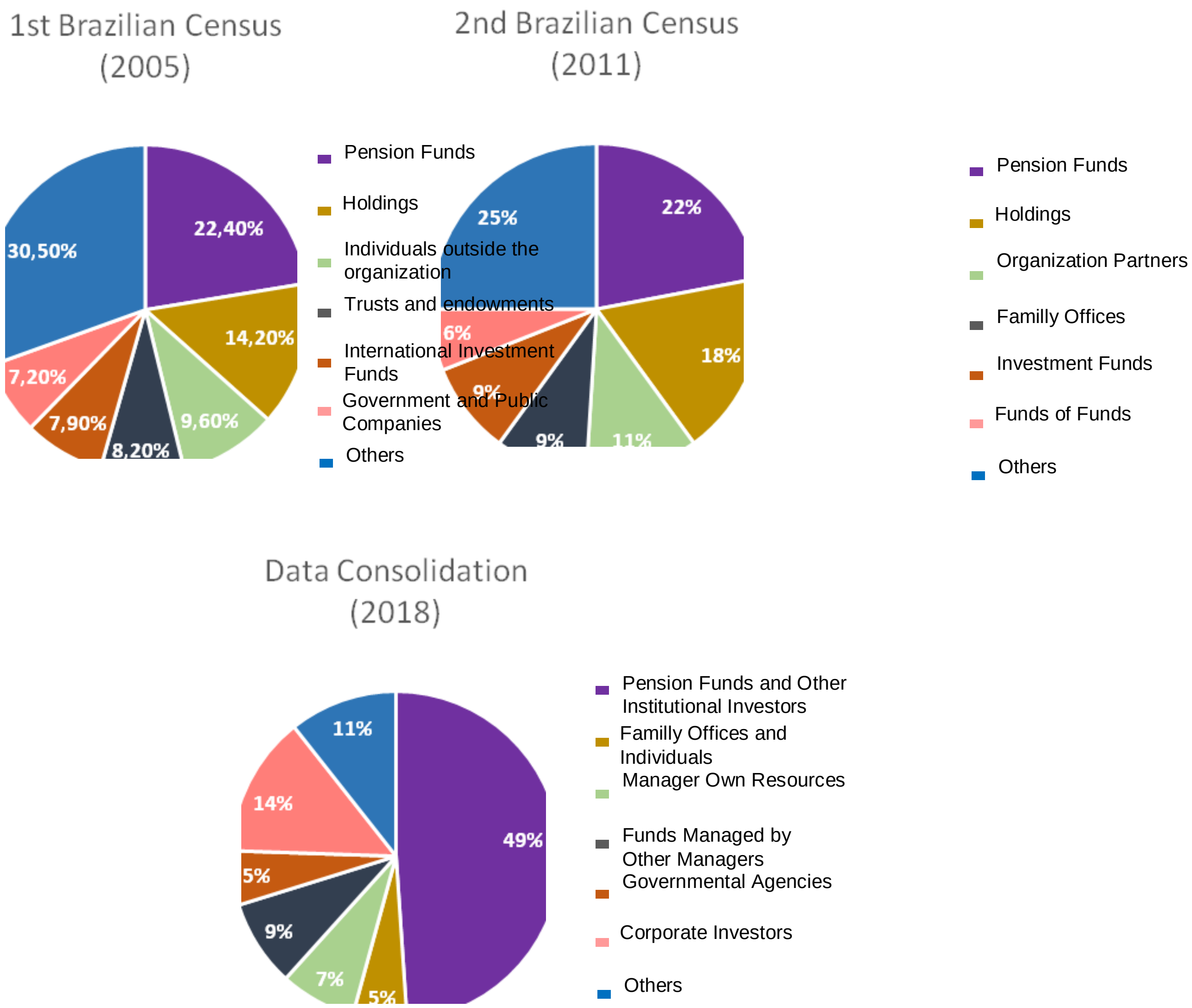
Due to its characteristics, investment in PE/VC is more attractive for large financial institutions, institutional investors, individuals and/or very wealthy families (Family Offices).As it mainly aims at technological innovation, it is attractive to governments via development agencies, development banks, among others[8] (CARVALHO et al, 2005).

By analysis of the data presented on the 1st and 2nd Brazilian Census of the Private Equity and Venture Capital industry, of 2005 and 2009, respectively, as well as the Consolidation PE/VC industry data in Brazil, from 2017, there is a clear hegemony of investments made by pension funds[9], over the years mentioned above.

[8] In Brazil, the main governmental institutions used for investments in PE/VC are: Finep, BNDES, SEBRAE and Banco do Nordeste.

[9] Notably PREVI, PETROS, FUNCEF, CESP, VALIA, etc.

Figure2 - Investors in PE/VC in Brazil[10]



Adaptation. Source: CARVALHO et al (2005); ABDI/FGV (2009); KPMG/ABVCAP (2017)

1.3.4 Investments

The distribution of investments, by sectors, has a strong correlation with the moment and expectations of the economy. Table 4 shows the companies invested by PE/VC, classified by sector, between the years of 2015 and 2017. Significant declines can be observed in some of the most relevant segments, hard hit by the Brazilian recession initiated in 2015.

Between 2015 e 2017 the fall in new investments in the Real State sector (Civil Construction) and industrial products and services with -36,75% and -32,58%, respectively.

[10]Although in the studies the definitions of the types of investors show divergencies in nomenclature and categorization, there is a clear hegemony of pension funds as the largest investors.

Table 4 - Quantity and performance of PE/VC Invested Companies, by sector

Sector	2015		2016		2017		Accum. Growth 2015 to 2017
	Qty.	%	Qty	%	Qty	%	
Agribusiness	0	0,0%	17	10,8%	13	7,4%	-
Food and Beverages	7	4,4%	8	5,1%	8	4,6%	6,90%
Education	13	8,2%	4	2,5%	9	5,1%	-16,79%
Energy	6	3,8%	10	6,4%	10	5,7%	29,10%
Infrastructure	0	0,0%	0	0,0%	2	1,1%	-
Logistics ande transportation	7	4,4%	10	6,4%	9	5,1%	13,39%
Oil and Gas	3	1,9%	0	0,0%	2	1,1%	-18,35%
Industrial Prod. and Services	11	6,9%	8	5,1%	5	2,9%	-32,58%
Real Estate and Construction	5	3,1%	10	6,4%	2	1,1%	-36,75%
Health and Pharmacy	22	13,8%	13	8,3%	15	8,6%	-17,43%
Financial Services	12	7,5%	13	8,3%	18	10,3%	22,47%
IT	41	25,8%	30	19,1%	49	28,0%	9,32%
Retail	5	3,1%	11	7,0%	8	4,6%	26,49%
Others	27	17,0%	23	14,6%	25	14,3%	-3,77%
TOTAL	159	100,0%	157	100,0%	175	100,0%	4,91%

Own Elaboration. Source: KMPG/ABVCAP (2017).
** Comprises the following branches of activities: Entertainment/Tourism, Mining, Textiles, Holding, Footwear, Security Equipment, Incubators, Call Centers and Appliances.*

1.3.5 Divestments

According to Kameyama (2001), the main forms of divestments are:

- IPOs – Initial Public Offering, where the company goes public by making an initial public offering of shares on the stock exchange.

Table 5 - Characteristics of divestment via IPO

Benefits	Disadvantages
Support from managers, who remain leading the business	High costs - in the preparation and execution of the IPO
Fund shares future growth if it retains part of its shares (do not sell all of its stake)	Time-intensive - IPO process can take a lot of preparation efforts, consuming significant time
Public offer for acquisition after IPO by another company may increase the value (by embedding a possible control prize)	It may not represent a total exit, if the Fund is contractually obliged to maintain a stake in the company (it gives more credibility to the IPO, as it shows confidence in the valuation of shares)

Font: KAMEYAMA (2001)

- Trade Sale – Bulk selling to a strategic agent

Table 6 - Characteristics of divestment via Trade Sale

Benefits	Disadvantages
Award - due to the generation of synergies and economies of scale of the new buyer	Management resistance - share change may incur replacement of key executives
Simplicity - process can be simpler, faster and less costly than an IPO	Confidentiality - often the best potential buyers are close competitors. The due diligence process may involve transferring confidential information to competitors
Total withdrawal of investment - generally the block sale allows the fund to dispose of its entire stake	

Source: KAMEYAMA (2001)

- Buy Back – Repurchase by the invested company´s initial partners, usually used in case of failure in the investment operation.

Table 7 - Characteristics of divestment via Buy Back

Benefits	Disadvantages
Low Cost	Administrators may not have the financial resources for the acquisition
Little due diligence needed - as buyers are the company's own managers	Bulk selling to a strategic investor right after the re-purchase may damage the fund's reputation

Font: KAMEYAMA (2001)

Among the main forms of divestments mentioned above, the one that most pleases shareholders and the market itself is the IPO, which tends to be the most profitable mechanism.

In the Brazilian market, renowned companies that went public and obtained resources from PE/VC continued to present excellent performance.

Analyzing the prospects for the companies in Brazil to go public, Gioielli (2008) found that from January,2004 to July, 2008, 32% of the volume raised in the IPOs held at B3[11]were from companies invested by PE/VC.Data released by ABVCAP and KPMG, in 2017, shows that this trend continues. Of the 9 IPOs held at B3, 6 were from companies with Private Equity investments, as shown in the table below:

[11]Denomination used for the São Paulo stock exchange, as of 2017, after the fusion of BM&FBovespa with the CETIP.

Table8 - IPOs of investments in PE/VC

Company	Volume Captured (R$ million)	Listing Segment B3	Participation of Foreign Investors	Operating Segment	Date of IPO	Profitability in relation to the IBOV(IPO until 2018/12/28)
Natura Cosméticos	768	New Market	67%	Personal Care Products	2004/05/26	120,03%
Gol Linhas Aéreas Inteligentes	878	Level 2	75%	Air Transportation	2004/06/22	-1,84%
Submarino (atual B2W Varejo)	473	New Market	73%	Diverse Products (commerce)	2005/03/29	51,50%
Localiza Rent a Car	265	New Market	87%	Car Rental	2005/05/20	954,69%
TAM*	548	Level 2	74%	Air Transportation	2000/07/24	1368,07%
Gafisa	927	New Market	72%	Construction	2006/02/16	-60,35%
Totvs	460	New Market	69%	Softwares and Services (IT)	2006/03/09’	210,70%
Anhanguera Educacional(atual Kroton)	512	Level 2	76%	Education	2007/07/20	154,62%
BR Malls Participações	657	New Market	69%	Real Estate	2007/04/04	180,79%
MRV Engenharia e Part.	1193	New Market	73%	Construction	2007/07/20	107,42%

Adapted:Source: GIOIELLI (2013) “Os Gestores de Private Equity e Venture Capital Influenciam a Governança Corporativa das Investidas?”

**Company stopped to be listed on B3 after fusion with LAN Airlines, becoming LATAM Airlines.*

From the table presented, most companies performed above the IBOVESPA index in their respective periods, which shows their consistency and success during the years and beyond the Brazilian crisis.

1.3.6 Legal Framework and Regulatory Aspects

In Brazil, investment funds are constituted in the form of condominiums. There is no corporate structure in this condominium, the asset portfolio belongs to the fund itself and investors are shareholders of the fund, proportionally to the capital invested. However, the funds have duties and obligations to third parties and can act actively or passively before the court.

Ownership of shares in an investment fund does not guarantee to investors the direct ownership of the assets, but the ownership of a fraction of the investment portfolio as a whole. “In other words, investors in an investment fund in Brazil are holders of shares that represent their investment in assets belonging to the investment fund”. (ABVCAP, 2018, p.4).

The first regulation for investments in equity interests, via funds, was made by CVM Instruction 209/94[12]introducing Mutual Investment Funds in Emerging Companies (MIFEC),Ribeiro (2005).

Structure: (i) Term limited to 10 years, which can be extended only once, for another 5 years; (ii) the shares of the MIFEC, after paid in, could be traded on the stock exchange or over-the-counter Market, subjected to CVM approval; (iii) participation only by qualified investors[13]that commit a minimum of R$ 400 thousand; (iv) with 60-day notice, the administrator may resign from the administration of the fund; (v) 5% of the shares may call an Extraordinary Meeting; and (vi) the investor has access to the information.

Remuneration: (i) charges for fees and expenses and terms cannot be differentiated between shareholders; (ii) fund expenses are passed on to the investees; and (iii) the fixed or variable manager´s remuneration, may be altered upon approval from the shareholders.

Over the time, the regulatory parameters present at the MIFEC became insufficient, mainly due to the restriction on the size and types of companies. In 2003, CVM established a new figureof funds with a focus on equity interests, the so-called Investment Funds in Participations (IFP), through ICVM 391/03[14]. Ribeiro (2005) made comparisons between IFPs and MIFEC, verifying aspects of structure, investment cycle and remuneration:

Structure: (i) several restrictions were relaxed, giving greater freedom from managers and investors to define their investment policies, governance and contractual duration; (ii) imposes a governance model for the fund, composed of investment committees and an advisory board; (iii) requires greater transparency of information for shareholders; (iv) requires that the accounting rules for assessing investments and quotas be established in regulations; (v) the minimum commitment of qualified investors decreased to R$ 100 thousand; (vi) the manager is liable for losses arising from fraud, fault and violation of laws; (vii) the fund´s shares may be traded on the stock exchange, if the counterparty is a qualified investor.

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[12]The CVM instruction 209/94 was changed by the CVM instructions 225/94, 236/95, 246/96, 253/96, 363/02, 368/02, 415/06, 435/06, 453/07, 470/08, 477/09, 498/11 and 544/14.

[13]In season, according to art. 109 of ICVM 409/04, qualified investors were considered: i. Financial institutions; ii. Insurance companies and Capitalization societies; iii. Open and closed supplementary pension entities; iv. Individuals or legal entities that have financial investments in na amount greater than R$1 million and that, additionally, atest in a written document for his condition as a qualified investor under his own term; v. Investment funds intended exclusively for qualified investors; vi. Portfolio managers and securities consultants authorized by CVM, in relation to their own resources; vii. Own social security schemes instituted by the Union, the States, the Federal District or Municipalities.
Currently, the parameter defining qualified investors are found in ICVM 554/14.

[14]The CVM instruction 391 was changed by the CVM instructions 435/06, 450/07, 453/07, 496/11, 498/11, 535/13, 540/13, 549/14, 554/14.

Investment Cycle: (i) the regulation provides for investment and divestment decision and processes; (ii) there is no limit on the size of the invested company or the fact that is listed on the stock exchange; (iii) managers must demonstrate effective participation in the administration and governance of companies; (iv) companies cannot issue founder´s shares or have them in circulation; (v) the companies join the arbitration chamber, renouncing to resort to the courts; (vi) companies brought to IPO must adhere to one of the differentiated corporate governance segments such as the New Market; (vii) the audit must be carriedout by an independent company, registered in the CVM; (viii) there is no financial leverage.

Remuneration: The ICVM 578/16 brought newsconsolidating and creating different categories of PIFs, allowing investment in limited liability companies, and improving corporate governance mechanisms in invested companies. ICVM 579/16 was created, which deals with the preparation and disclosure of PIFs´ financial statements and brought the concept of fair value, changing the way in which the company invested in the portfolio is marked, in addition to providing for the preparation and disclosure of the accounting statements (ABVCAP, 2018).
Based on the instructions andon the CVM[15] website, the main points are verified:

(i) PIFs have the following categories: Seed Capital, Emerging Companies, PIF-IE/PIF-PD&I, Multi-strategy.
   a. Seed Capital: Invest in companies with annual gross revenue of up to R$ 16 million, which may be limited liability companies;
   b. Emerging Companies: Invest in companies with gross revenues of up to R$ 300 million;
   c. PIF-E/PIF-PD&I: Invested companies should develop new infrastructure projects or R&D intensive economic production;
   d. Multi-strategy: Type of fund that does not fit into other categories, admitting investments in different activities and society sizes.

(ii) Expansion of the target audience for investments in Seed Capital for all qualified investors and not only professional investors;

(iii) Extinction of PIF-FIC with permission for any PIFto invest in shares of other funds in the same category;

(iv) Exclusionof contract obligation that contains a solidarity clause between administrator and manager;

(v) Expansion of the manager´s responsibility and obligations regarding the contracting of services related to investment or divestment, his performance and pricing of the fund´s assets;

[15]http://www.cvm.gov.br/noticias/arquivos/2016/20160830-2.html - Accessed in 2019/04/22.

Increasein the period for disclosing half-yearlyand annual information, from 60 to 120 days, respectively, to 150 days.

1.3.7 Organization and Formation

The organization and formation of the PIF (investment vehicle)is carried out by a specialized administrator/manager, and can be linked to investment banks, asset manager or to be independent. For the constitution of a fund, it is essential to have a regulation, in compliance with the CVM instructions in force, which will define: duration, management and management remuneration, investment policy, fiscal years, AGQs and RCIs quorum, among others.

The Administrator is responsible for constituting and registering with the CVM,coordinating the services provided by the manager, auditor and custodian, reporting to regulatory bodies and shareholders.

The manager is an institution hired by the fund, duly accredited, to be responsible for managing the portfolio and making decisions based on the investment policy. The Administration and Manager roles can be concentrated in a single institution. (SILVA, 2010, pg. 13).

According to the 2nd Brazilian Census of Private Equity and Venture Capital, the average duration time of PIFs is 10 years, from the moment of its registration with the CVM until its settlement. During this time, the regulation should provide for two important moments: Investment and Divestments periods have an average duration of 4 to 5 years.The duration of both the fund and its periods can be extended by voting in AGQ, by the shareholders.

1.3.8 Administration and Management Compensation

Administration and management remuneration are provided through fixed rates and a performance fee. The so-called management fee, including the operating expenses of the management organization such as wages and rent. Its value is normally between 1% and 2% on the amount of capital committed during the investment and divestment period. (ORENSTEIN, 2013).

The performance fee is paid to the fund manager, it works as an incentive, linking its remuneration to the return obtained. Normally, the performance fee is 20% of the capital gain the exceed the hurdle rate or benchmark set out in the regulation. The hurdle rate represents the opportunity cost of the investor, that is, the return he would obtain on a low risk investment plus a correction index - IPCA, IGPM, INPC, etc. - (ORESTEIN, 2013).

1.3.9 Search for Investment Opportunities

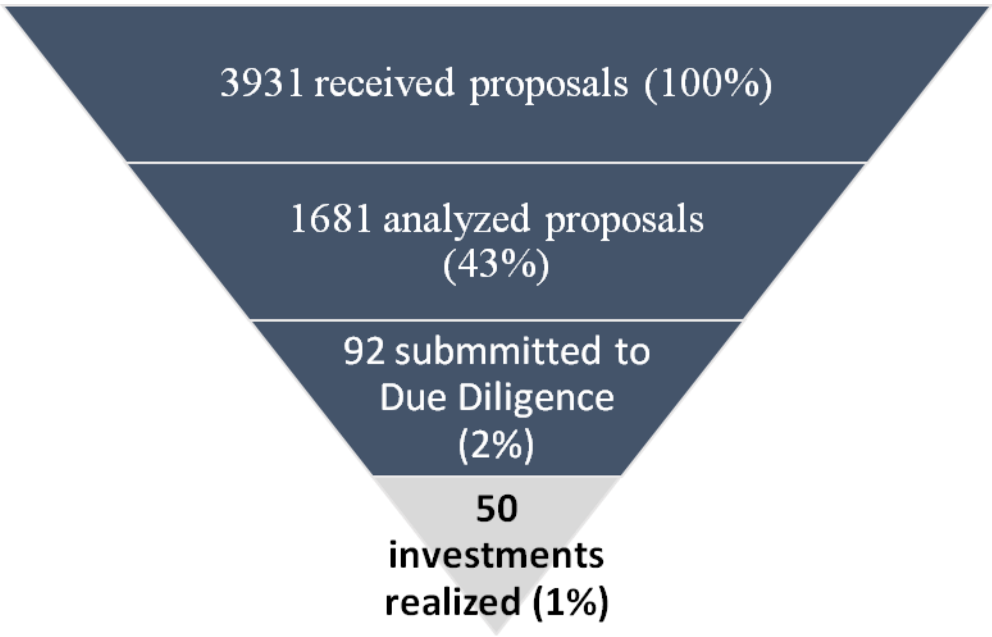
The selection of companies to be invested by the fund is a very rigorous process, given the low conversion of prospected companies into invested companies.

The managing institution carries out a selection process for promising projects in line with the fund´s investment policy.

After analyzing and selecting the pool of companies of interest for the manager, a thorough process of valuations and due diligences begins. Such analysis addresses macroeconomic and market studies (history of the sector, perspectives, demand, competition), legal opinions, document verification, aspects of governance, among others. (ORENSTEIN, 2013).

In the 2nd Brazilian Census of Private Equity and Venture Capital, 88 fund managers were consulted (corresponding to 60% of the Brazilian PE/VC market universe) in December 2009, which reveal numbers of the rigorous selection process.

Figure3– Conversion into Investment Opportunities



Source: ABDI e FGV (2011) "A Indústria de Private Equity e Venture Capital – 2º Censo Brasileiro"

Against of the high number of proposals received in the initial phase, the time with a thorough study is unfeasible, with most proposals being discarded right from the start. In the next phase, the proposals are analyzed more carefully checking whether it fits on management pre-established conditions, few companies reach due diligence.

According to data released in the 2nd Brazilian Census of Private Equity and Venture Capital, the main reason that made the approval of companies in the due diligence phase unfeasible are found in the table below.

Table 9–Reasons that made investments in the Due Diligence phase unfeasible

Motive	%
Business bankruptcy	0,5
Regulatory / competitive aspects (eg CADE)	1,1
Seller's withdrawal without apparent cause	3,2
Difficulty in legal structuring of the transaction	3,2
Change in the macroeconomic environment	6,8
Completion of investment by another potential buyer	8,3
Change of value parameters due to accounting adjustments	9,9
Exercise of veto power by one or more members of the investment committee	11,3
Changes in value parameters due to permanent market changes (eg price, cost of relevant items, competition, etc.)	16,2
The manager does not have this control	18,1
Contingencies / liabilities arising from due diligence not revealed by the entrepreneurs	21,4
TOTAL	**100**

Source: ABDI e FGV (2011) "A Indústria de Private Equity e Venture Capital – 2º Censo Brasileiro"

It is observed that the main reason of non-investment come from liabilities not revealed by the entrepreneurs. The study also reveals manager´s lack of control and mapping of the reasons that led to non-investment. Market factors and legal issues are also obstacles. Finally, another very relevant factor is governance, through the veto of the fund´s investment committee.

1.3.10 Governance

The governance elements of an PIF are presented in two ways: the corporate governance of the fund itself and the governance of invested companies.

In relation to the management of the fund, the quota holders have direct participation through General Shareholders´ Meetings (GSM) where they deliberate on the operation of the fund: approval of the financial statements presented by the administrator, hiring of an independent auditor, hiring of an independent evaluator to mark assets a fair value, contracting of legal services, amendments to regulations, dismissal of administrator and management with choice of substitute, merger, spin-off, incorporation or eventual liquidation of the fund, issue of new quotas, extension of the term, etc. The quorum and minimum voting criteria are foreseen in the regulation.

Regarding corporate governance issues of invested companies, an ICVM 578/16 obliged the PIFs to participate in their management. For this purpose, acquisitions of the shares that make up the control block are made, a shareholders´ agreement is signed, members are appointed on the Board of Directors and there is a cling to the arbitration chamber for corporate conflicts, renouncing the Judiciary.

There is also the Investment Committee, which supervises the manager´s activities and influences investments. Formed by a group of shareholders, it decides on investments, divestments, renegotiations and other activities proposed by the manager of the invested companies. An instrument widely used by pension funds, it generates criticism that claims the removal of the discretion of the specialized manager and hired exclusively to manage the fund´s investments. The allegation is the formation of a “decision cartel”, where the final word of an investment and/or divestment is made by the shareholders, in case they decide to unite in a vote.

2. CRP VI VENTURE – PIFIN EMERGING COMPANIES

This chapter aims to analyze the constitution, dynamics and investment results of thePIFCRP VI Venture, already settled, which aimed to invest in innovative companies in the State of Rio Grande do Sul.

Data and information about PIF, presented in this article, originate from analysis and compilation, based on quarterly reports, portfolio composition, financial statements, meeting minutes, regulations, all in the public domain, presented on the CVM website.

Regarding the invested companies, compiled information will be presented, as well as the investment progress and results of each General Presentation.

Table 10–Fund´s Characteristics

<table>
<tr><td rowspan="20">FUND</td><td>Name</td><td>CRP VI Venture - PIF in Emerging Companies</td></tr>
<tr><td>CNPJ</td><td>07.720.541/0001-33</td></tr>
<tr><td>Administrator/Manager</td><td>CRP Participation Companies</td></tr>
<tr><td>Sector of Operation</td><td>Innovation or improvement of the productive / social environment</td></tr>
<tr><td>Committed Capital</td><td>R$ 59.440.000</td></tr>
<tr><td>Paid-in capital</td><td>R$ 59.440.000</td></tr>
<tr><td>% Integralized Committed Capital</td><td>100%</td></tr>
<tr><td>Fund Start</td><td>Dec/2005</td></tr>
<tr><td>End of Investment Period</td><td>Dec/2010</td></tr>
<tr><td>Original Settlement Term</td><td>Dec/2014</td></tr>
<tr><td>Liquidation of the Fund - After Extensions</td><td>Dec/2018 (4 years extension)</td></tr>
<tr><td rowspan="8">Invested Companies</td><td>BR Supply</td></tr>
<tr><td>Keko</td></tr>
<tr><td>Wallerius</td></tr>
<tr><td>Pisani</td></tr>
<tr><td>LG Tech</td></tr>
<tr><td>Sulmaq</td></tr>
<tr><td>Grupo A</td></tr>
<tr><td>Teikon</td></tr>
<tr><td>Hurdle Rate (Benchmark)</td><td>IPCA + 10% /year</td></tr>
</table>

Own Elaboraticonção. Source: CVM Database, Regulation and Minutes of AGQ.

2.1 Brief History

The CRP VI Venture – PIF in Emerging Companies was created in October 2005 and had its operation authorized by the CVM in December 2005. The Fund directed its investments towards the acquisition of shares, debentures convertible into shares or subscription warrants issued by shares of emerging companies which were classified as “innovative”, according to the legislation of the time. Such companies should focus on renovation or improvement, development of new products, processes or services in the sectors of software, hardware, internet, biotechnology, fine chemicals, precision mechanics, plastic technology, agribusiness and new materials.

2.1.1 Administration and Management

The administration and management of the Fund was carried out by CRP Participation Company, from its constitution to its liquidation.

CRP is a pioneer in Private Equity and Venture Capital in Brazil, with 37 years of experience and 10 established funds. It started in 1981, in Porto Alegre, capital of Rio Grande do Sul, and has already carried out 81 investment operations and 52 divestments in many sectors. Currently, it has more than R$ 230 million in assets under management and 24 companies in its portfolio, total revenues of R$ 1,2 billion. Registered with the CVM as an administrator and manager of structured invested funds.

2.1.2 Shareholders

3.075 quotes were issued, with a unit value of R$ 20.000, committed capital of R$ 61.500.000. Due to exchange variations in dollar amounts, the committed capital was adjusted to R$ 59.440.000, equivalent to 2.972 quotes, totally paid in by 7 shareholders. Due to confidentiality, the shareholders will not be presented by name, but by category, according to CVM classification.

Table11–Fund´s Shareholders

Shareholder	Committed Capital	Quantity of Shares	%	Adjusted Subscribed Value	Integralized Value	Fund Participation
Other financial legal entity	R$ 15.000.000	750	24,39%	R$ 15.000.000	R$ 15.000.000	24,39%
Closed supplementary pension entity	R$ 15.000.000	750	24,39%	R$ 14.860.000	R$ 14.860.000	24,39%
Closed supplementary pension entity	R$ 10.000.000	500	16,26%	R$ 10.000.000	R$ 10.000.000	16,26%
Capitalization and leasing company	R$ 10.000.000	500	16,26%	R$ 10.000.000	R$ 10.000.000	16,26%
Non-resident investor	R$ 8.700.000	435	14,15%	R$ 7.100.000	R$ 7.100.000	14,15%
Non-resident investor	R$ 2.200.000	110	3,58%	R$ 1.880.000	R$ 1.880.000	3,58%
Non-financial legal entity	R$ 600.000	30	0,98%	R$ 600.000	R$ 600.000	0,98%
TOTAL	**R$ 61.500.000**	**3075**	**100%**	**R$ 59.440.000**	**R$ 59.440.000**	**100%**

Own Elaboration. Source: CVM Database.

Some shareholders held the right to appoint full and alternate members to the Investment Committee. The administrator was entitled to nominate two members and two alternates while another four shareholders could nominate one holder and one alternate, all with voting rights. The remaining two shareholders could nominate members only as observers, without voting rights.

2.1.3 Fund Investment Policy

Main aspects, based on the regulations adapted to ICVMs 578 and 579/2016.

- Maintain, at least, 90% (ninety per cent) invested in securities;
- The portion not invested in securities, should, mandatorily be invested in: (i) quotas of fixed income funds, and/or (ii) fixed income securities issued by financial institutions, the National Treasury of the Central Bank of Brazil; express exclusion of any securities issued by publicly-held companies.
- Investment by Company limited to 20% of the Committed Equity. Investment in non-convertible debentures limited to a maximum of 33% of the total Committed Equity.
- The Fund could invest up to three rounds of capitalization per Target Company, as defined below, making it possible to combine the values of the first two rounds or the last two:
    - 1st – Experimental Investment, limited to a maximum investment of R$ 3.000.000,00 (“1st Round”);
    - 2nd – Consolidation and revision of the investment, limited to a maximum investment of R$ 4.000.000,00 (“2nd Round”), preferably in Target Companies from the 1st Round; and
    - 3rd – Investment reposition and growth, limited to a maximum investment of R$ 8.000.000,00, preferably in Target Companies from the 1st and 2nd Rounds (“3rd Round”).”

2.1.4 Summary of the Investments Period

The Fund was in an Investment Period for the first five years, between December 2005 and December 2010. In this phase, eight investments were approved and made by the following companies:

Table12–Invested Companies

Company	Sector	Investment Approval (RCI)
Teikon Tecnologia Industrial S.A.	Eletronics	jun/2006
Wallerius do Brasil Ltda	Sweets	dec/2006
Keko Acessórios Ltda.	Automotive	nov/2007
Linpac Pisani Ltda.	Plastics	aug/2009
Artmed Editora S.A. (Grupo A)	Editorial	sep/2009
Sulmaq Industrial e Comercial S.A.	Equipments	dec/2009
Br Supply S.A.	Services	dec/2009
LG Tech Indústria e Comércio deProdutos Mecânicos e Elétricos e Eletrônicos S.A.	Elevators	nov/2010

Own Elaboration. Source: CVM Database

As usual, in PE/VC investments, the selection process to choose the companies to be invested was meticulous, in the following terms:

- 1.014 companies registered since the beginning of the Fund;
- 490 companies were propected
- 37 companies were pre-analyzed
- 17 companies analyzed (duediligence)
- 8 companies effectively invested

Only 0,79% of the contacted companies were invested. All prospected companies had headquarters in the South and Southeast of Brazil, and at the end, all invested were headquarted in the State of Rio Grande do Sul.

2.1.5 Summary of the Divestments Period

As of December 2010, the Fund entered into a divestment period, closing in December 2014, totalizing four years. However, there were extensions of a further 4-year term, that is, the Fund spent 8 years in a divestment period. The extensions that occurred were:

i) Dec/2014 to Dec/2015: Approved by AGQ held on 2014/05/30, under the terms of the current regulation. Justified by the existence of 3 remaining companies, with the expectation of being divested during 2015.

ii) Dec/2015 to Dec/2016: Approved by AGQ held on 2015/12/07, under the terms of the current regulation. Justifications: (i) economic and political crisis in Brazil that influenced the interest of investors, reducing not only the volume of interested parties but also the value of offers. (ii) performance of invested companies.

iii) Dec/2016 to Dec/2017: Approved by AGQ held on 2016/11/28, under the terms of the current regulation. Justifications: two remaining companies in the portfolio, in addition to the political and economic environment, continued to negatively influence divestments. In 2017, a more stable economic and political environment was expected, reflected in pricing and model flexibility.

iv) Dec/2017 to Dec/2018: Approved by AGQ held on 2017/11/14, under the terms of the current regulation. Justifications: A remaining company in the portfolio, divested only in

August 2018. In October, the liquidation of the Fund began, made effective in November2018.

Table 13 – Divested Companies

Company	Sector	Invested Time (years)	Divestment
Wallerius do Brasil Ltda.	Sweets	1	Feb/2008
Linpac Pisan Ltda.	Plastics	3	Jul/2013
LG Tech Ind. e Com. de Produtos Mecânicos, Elétricos e Eletrônicos S. A.	Lifts	2	Aug/2013
Sulmaq Ind. e Com. S.A.	Equipments	4	Nov/2014
Artmed Editora S.A. (Grupo A).	Editorial	5	Mar/2015
Teikon Tecnologia Ind. S. A.	Eletronics	9	Dec/2015
Br Supply S. A.	Services	7	Nov/2017
Keko Acessórios Ltda.	Automotive	10	Aug/2018

Own Elaboration. Source: CVM. Database

2.1.6 Administration Fee, Performanceand Other Expenses

According to Chapter III – Articles 9, 10 and 11 of the fund´s regulations, the administrator received remuneration composed of (i) management fee and (ii) performance fees.

Up to the fourth year of the fund´s investment period, the management fee amounted to 2% per year, calculated on the amount of the committed capital limited to the maximum amount of R$ 1.200.000. In the fifth year of the investment period and six years of the divestment period, the administration fee was 2% per year, calculated on the invested capital.

The administration fee was reduced to 1,5% per year, calculated on the value of the invested capital, as of the 7th year of the divestment period. The performance fees of the administrator/manager predicted 20% of the Fund´s results that exceeded the original capital by the hurdle rate (IPCA + 10% /year.), which did not occur.

Analyzing the financial demonstrations, we verify that until the last audited financial year (December 31st, 2018) total expenses were R$ 11,365 million, with 94% referring to the Administration Fee (including Management Fee). Other expenses refer to: custody fees, CVM, legal expenses, audit and independent appraisal reports.

Table 14– Administration Fee, Performance and Expenses

	Expenses (R$ mil)			
Endo f Fiscal Year	Administration Fee	Performance Fee	Other Expenses	TOTAL
2006/12/31	R$ 1.086	R$ 0	R$ 98	**R$ 1.184**
2007/12/31	R$ 1.200	R$ 0	R$ 41	**R$ 1.241**
2008/12/31	R$ 1.195	R$ 0	R$ 39	**R$ 1.234**
2009/12/31	R$ 1.200	R$ 0	R$ 43	**R$ 1.243**
2010/12/31	R$ 929	R$ 0	R$ 54	**R$ 983**
2011/12/31	R$ 1.082	R$ 0	R$ 50	**R$ 1.132**
2012/12/31	R$ 1.064	R$ 0	R$ 51	**R$ 1.115**
2013/12/31	R$ 806	R$ 0	R$ 47	**R$ 853**
2014/12/31	R$ 605	R$ 0	R$ 50	**R$ 655**

2015/12/31	R$ 502	R$ 0	R$ 44	**R$ 546**
2016/12/31	R$ 532	R$ 0	R$ 42	**R$ 574**
2017/12/31	R$ 370	R$ 0	R$ 60	**R$ 430**
2018/12/31	R$ 84	R$ 0	R$ 72	**R$ 156**
TOTAL	**R$ 10.655**	**R$ 0**	**R$ 691**	**R$ 11.346**

Own Elaboration. Source: Audited Financial Demonstrations

2.1.7 Committed Value, Invested Value and Received Value

The Fund committed capital was R$ 59.440.000, which was paid in full (100% of the committed capital). From this amount, R$ 52.217.911 were allocated in investments and R$ 7.222.089 were destined for the Fund´s costs.

Table15– Consolidation of paid in Resources

Destination Of Resources	Integralized Capital(R$) Total of Fund	% of the Integralized Capital
Teikon Tecnologia Industrial S.A.	R$ 12.081.571	20,33%
Wallerius do Brasil Ltda	R$ 500.000	0,84%
Keko Acessórios Ltda.	R$ 5.000.000	8,41%
Linpac Pisani Ltda.	R$ 12.000.000	20,19%
Artmed Editora S.A. (Grupo A)	R$ 2.136.340	3,59%
Sulmaq Industrial e Comercial S.A.	R$ 5.000.000	8,41%
Br Supply S.A.	R$ 12.000.000	20,19%
LG Tech Indústria e Comércio deProdutos Mecânicos e Elétricos eEletrônicos S.A.	R$ 3.500.000	5,89%
Despesas do Fundo	R$ 7.222.089	12,15%
TOTAL	**R$ 59.440.000,00**	**100%**

Own Elaboration. Font CVM Database.

The Fund received R$ 109.292.909,00 from amortizations and disposals of the invested companies.

Table16 – Consolidation of the Received Resources

Destination Of Resources	Received Capital(R$) Total of Fund	% of the Received Capital
Teikon Tecnologia Industrial S.A.	R$ 212.158,00	0,19%
Wallerius do Brasil Ltda	R$ 659.775,00	0,60%
Keko Acessórios Ltda.	R$ 262.213,00	0,24%
Linpac Pisani Ltda.	R$ 59.211.814,00	54,18%
Artmed Editora S.A. (Grupo A)	R$ 3.969.148,00	3,63%
Sulmaq Industrial e Comercial S.A.	R$ 6.318.252,00	5,78%
Br Supply S.A.	R$ 35.159.577,00	32,17%
LG Tech Indústria e Comércio de Produtos Mecânicos e Elétricos e Eletrônicos S.A.	R$ 3.499.972,00	3,20%
TOTAL	**R$ 109.292.909,00**	**100%**

Own Elaboration. Source: CVM Database.

Table177– Consolidation of the Financial Flow

Summary	R$
Quotas Shareholders	**59.440.000**
Investments	52.217.911
Support for expenses	7.222.089

Total Received	**109.292.909**
Quota amortizations	106.250.478
Retained to cover expenses	2.897.766
Dividends passed on to shareholders	144.665

Own Elaboration. Source: CVM Database.

2.1.8 Accounting/Financial Statements and Auditing

According to ICVMs 578/16 and 579/16 and the Fund´s regulations, the accounting/financial statements must be submitted to an independent auditor, accredited by CVM, for issuing an opinion.

The independent auditor is chosen by decision of the shareholders, in AGQ, being able to disapprove or approve the DFs with or without reservations. The same auditor may provide his services to the Fund for a maximum of five consecutive years.

In accordance to the regulation, Art. 27 – I and Art. 44 – III of the fund´s regulations preview:

- After the end of the fiscal year, the administrator has a period of 150 days to disclose the duly audited accounting/financial statements to the shareholders;
- After the end of the fiscal year, within 180 days, the AGQ must be held where the shareholders must show approval, abstention or disapproval regarding the audited DFs presented.

In order to verify: (i) compliance with deadlines; (ii) the independent auditors´ opinions at the end of each fiscal year and (iii) the results of the AGQ shareholders´ deliberations, an analysis of the financial statements and AGQ minutes was carried out. The results are illustrated below.

Table188 - DFs and Auditing

End of Fiscal Year	Auditor	Auditor´s Opinion Date	Auditor´s Opinion	Compliance with Disclosure Deadline	Date of AGQ	AGQ Result	Compliance with AGQ Deadline
2006/12/31	PwC	2007/04/27	Approved without reservations	Yes	2007/06/19	Approved	Yes
2007/12/31	PwC	2008/03/18	Approved without reservations	Yes	2008/05/16	Approved	Yes
2008/12/31	PwC	2009/03/31	Approved without reservations	Yes	2009/05/08	Approved	Yes
2009/12/31	PwC	2010/03/30	Approved without reservations	Yes	2010/05/19	Approved	Yes
2010/12/31	PwC	2011/03/31	Approved without reservations	Yes	2011/06/14	Approved	Yes
2011/12/31	KPMG	2012/03/30	Approved without reservations	Yes	2012/05/03	Approved	Yes
2012/12/31	KPMG	2013/03/28	Approved without reservations	Yes	2013/06/24	Approved	Yes
2013/12/31	KPMG	2014/03/28	Approved without reservations	Yes	2014/05/30	Approved	Yes
2014/12/31	KPMG	2015/03/27	Approved without reservations	Yes	2015/05/26	Approved	Yes
2015/12/31	Delloite	2016/03/18	Approved without reservations	Yes	2016/05/12	Approved	Yes
2016/12/31	Delloite	2017/03/29	Approved without reservations	Yes	2017/06/09	Approved	Yes
2017/12/31	E&Y	2018/05/25	Approved without reservations	Yes	2018/06/25	Approved	Yes
2018/12/31	E&Y	31/10/2018	Approved without reservations	Yes	PIFalready liquidated	-	-

Own Elaboration. Source: Financial Demonstrations, Opinions of the Independent Auditors and AGQ Minutes.

It is concluded that all regulatory aspects and part in the Fund´s regulations regarding the accounting/financial and audit statements have been fulfilled.

2.2 Invested Companies

2.2.1 Information about investments in the company Teikon Tecnologia Industrial S. A. – Eletrônicos.

Without having its own brand, it outsourced the manufacture of its customers´ products. The business strategy of the company consisted of maintaining a select group of customers, acting from the project until the distribution. Its solutions involved logistics, input management, assembly of electronic boards, testing, final product integration and after-sales. Teikon performed from the production of electronic parts (printed circuits) to the final integration of the product (such as plastic and mechanical parts and packaging).

Substantiation

A U$ 6 billion Market in 2007 in Brazil, with high growth (16,4% /year. between 1999-2006), driven by telecommunications and informatics (70%), audio and video entertainment products, commercial/industrial and automotive automation. Young company, with positive growth and profitability since its foundation in 1998.

Robust growth project, new consumer electronics and IT contracts, expansion of the Porto Alegre and Curitiba units and establishment of a factory in Manaus.

Good perspective of divestment by capital Market or strategic sale.

Fund´s Investments Data

- Location: Porto Alegre/RS
- Business: Electronics Manufacturing contract
- Date of Investment: June, 2006
- Participation of PIF CRP VI: 12,14%
- Invested Value: R$ 12,1 million in total

Summary of Investment Progress

2006: Investment operation of R$ 2 million.

2007: New investment operation of R$ 7 million, opening of supply offices in China and commercial office in São Paulo, implementation of new plan in Manaus/AM.

2008: Monitoring of capital increase operation in the Company, in the amount of R$ 3,1 million, by the Fund.

With investments in industrial and commercial expansion in the 2006-2008 cycle, the Company increased volumes and revenues. However, the challenges of profitability and equity balance have been expanded. The Company was unable to consolidate its operating structure and gain results, generating increasing losses and a consequent increase in leverage even with the capitalizations made over the years.

2009: Increase in the Company´s debt due to the Strong investment volume and the beginning of liquidity restrictions on the asset.

2010: Restructuring of industrial units, departure of the Director of Operations, replacement of the CEO and CFO.

2011: Closing of the São José dos Pinhais/PR and Manaus/AM units. Departure of the Financial and Commercial Directors, with the activities centered on the CEO. Provision made for losses of 50% of the investment in the Fund´s balance sheet.

2012: Finalization of the São Paulo operation, with centralization of activities at the Porto Alegre/RS plant, capitalization by the original shareholders, with dilution of the Fund and new replacement at the helm. Provision for additional investment loss of 25%.

2013: Search for business resumption, through internal restructuring measures. Supplementary loss provision of 25% of remaining investment.

2014: Restructuring of industrial units, departure of the Director of Operations, replacement of CEO and CFO.

Divestment

Considering the Company´s negative performance, since the end of 2013 the Fund´s financial statements reflected a 100% provision for losses on the total investment of R$ 12,1M. Investment write-offs were 50% in 2011, 25% in 2012 and 25% in 2013.

With no prospect of return on investment and risk of liabilities arising for the Fund, in December 2015, the divestment was made in the Buy Back format. In the negotiation, the shares held by the Fund were assigned to the controlling shareholders at a price of R$ 1,00.

Projected VersusAchieved

In the investment proposal, the manager presented a valuation containing the projections of the company´s financial results for the following years. When comparing the projected results X achieved, it is verified:

Table 19 - ProjectedXAchieved– Teikon

	2006	2007	2008	2009	2010	2011	2012	2013	2014
Investment Proposal									

Net Revenue	45.024	67.536	94.550	122.916	147.499				
EBITDA	6.260	10.114	14.184	18.772	22.890				
Profit / Loss	3.085	5.836	8.174	10.969	13.674				
Achieved									
Net Revenue	62.360	82.852	114.107	136.734	222.712	140.112	46.117	13.144	18.029
EBITDA	6.515	7.972	-2.034	2.034	428	-27.979	-14.657	-12.052	-3.042
Profit / Loss	2.101	2.176	-15.450	893	-10.500	-27.1554	-33.216	-11.169	-6.076

Own Elaboration, Source:Economatica

Table19–Investments results– Teikon

Company	Segment	Investment	Invested Values	Divestment	Participation in the Fund´s Portfolio	Received Value	Nominal TIR	x.K
Teikon	Electronics	2006/06/29	R$ 2,000,000	2015	23,14%	R$ 212.158	-	0,0%
		2007/06/29	R$ 3,000,000					
		2007/07/13	R$ 3,999,180					
		2008/12/09	R$ 3.082,391					

Own Elaboration: The return of the invested capital was 0,0

2.2.2 Information about investments in the company Wallerius do Brasil Ltda.

Company founded in 1954, working on the production of candies and sweets with a wide product mix, aimed at a market share segments (classes C-D-E) and premium segments (classes A-B). Company with high operation capacity and competitive advantage, due to its modern manufacturing facilities.

Investment Thesis

Performance in a large market with high exportation potential, due to the competitiveness of Brazil in the international scenario with the local production of the main inputs (sugar and glucose). The Fund, with its entry, intended to restructure management and operations in addition to better orientation of the company in the market, optimizing capacity and product mix. Negative results were projected until 2008, with significant turnaround from 2009.

Fund´s Investments Data

- Location: Arroio do Meio/RS;
- Business: Production and sales of sweets
- Investment Date: December, 2006;
- Participation inPIF CRP VI: 2,44%
- Invested Value: R$ 500 thousand.

Summary of Investment Progress

2006: Investment of R$ 500.000,00.

2007: Good sales growth, but with losses in results and EBITDA below projections, due to the strong impact of the exchange rate situation, greater competition in the domestic market and high financial indebtedness.

Divestment

Due to the underestimated performance, in February, 2008, the Fund enforced the agreement signed between the parties at the beginning of the investment, where, if the company presented results well below projected in the first 3 years, the shareholders would repurchase the fund's participation , of 2.44% of the company's share capital, the invested amount being adjusted to CDI + 5%, to be paid in 2 installments. Accordingly, the Fund received R$ 659 thousand between December, 2008 and July, 2009.

Projected VersusAchieved

In the investment proposal, the manager presented in the valuation containing the projections of the company's financial results for the following years. The table below shows the comparison between projected results and actual results

Table201– Projected vs Achieved– Wallerius

	2006	2007	2008	2009	2010	2011
Investment Proposal						
Net Revenue	19.973	38.380	47.802	56.153	63.345	67.716
EBITDA	-3.787	3.506	5.754	7.957	9.847	11.038
Profit / Loss	-7.441	-3.132	-1.225	1.215	2.896	4.058
Achieved						
Net Revenue	19.915	27.382				
EBITDA	-6.381	-2.325				
Profit / Loss	-8.358	-5.998				

Own Elaboration.Source: Economatica

As a result, the completion of the investment achieved a nominal IRR of 16.74%. The return on capital was 1.3x the amount invested.

Table 21–Investment Results – Wallerius

Company	Segment	Investments	Invested Values	Divestment	Part. In Fund´s Portfolio	Received Value	Nominal TIR	x.K
Wallerius	Sweets	2006/12/12	R$ 500.000	2008	0,96%	R$ 659.775	16,74%	1,3x

Own Elaboration.

2.2.3 Information about the Investment in Keko Acessórios Ltda.

Company´s General Aspects

Keko acts in the automobile market, manufacturing accessories for SUVs, passenger cars, minivans and road implements. Founded in 1986, being a supplier to major brands such as Ford, GM, Mitsubishi, Toyota, Peugeot and Volkswagen. Operating through direct sales to automakers and aftermarket (retail sales), wide product mix: front protectors, stirrups, car protection bars, trailer hitches, luggage racks, marine hoods, bucket protectors, trunk protectors, winches, headlights, among other items.

Investment Thesis

Unique positioning in Brazil due to its innovation profile (holder of dozens of patents, utility models and industrial designs duly registered with the competent bodies) and the market potential due to the growth of the pickups and SUVs segments in Brazil.

The Fund intended to reinforce the innovation structure, finance the need for working capital to support projected growth and to inject capital to build a new industrial plant.

Fund´s Investments Data

- Location: Flores da Cunha/RS
- Business: Personalization of accessories for utility vehicles, passenger cars, minivans and road implements;
- Investment Date: november, 2007;
- Participation inPIF CRP VI: 16%
- Invested: R$ 5.000.000,00.

Investment Summary

2007: first investment round of R $ 2.000.000,00 in the company.

2008: new round of investment in the Company, of R$ 3.0 million. Even in a year of global economic crisis, Keko grew by 30%. However, it was not enough to make the operation profitable. Production problems demonstrated the need to build the new plant.

2009: as a reflection of the 2008 crisis, the company did not grow in 2009. With the poor performance, it was decided to change the Market Director. Construction of the new plant has begun.

2010: year of sales recovery, with almost 30% growth, profitability remained hampered by production problems and inefficiencies. Two new directors were hired: Market and Operation. Within a strategy of verticalization of production, the company TDK, specialized in chrome plating coatings, was acquired.

2011: grand opening of the new plant, located in Flores da Cunha / RS. As a result, the company showed less vigorous growth, approximately 11%.

2012: first year of stable production at the new plant. After the change and adjustments in the operation, the company showed a considerable increase in operating profitability.

2013: consolidation of products launched in 2011/2012, stabilizing Ebitda at an attractive level, despite low sales growth. The level of indebtedness, which has risen since the construction of the new plant began in 2009, remained the main problem. Investments in fixed assets and working capital were the main responsible for the total indebtedness reached at the end of 2013

2014: the company started to present operating losses due to its high liabilities. In the middle of the year, he took on a new Operations Director, with extensive experience in the automotive industry, consolidating the Keko Production System.

2015: year of decrease for the company as well as the market. Increased interest rates increased financial expenses, increasing the company's negative result. KPMG was hired to start the financial restructuring and divestment process, advisor Stone Capital was hired, and to start divesting and financial restructuring, KPMG Consulting began to work.

2016: the automotive market continued to fall. Continued financial difficulties, with operational loss.

2017: continuity in declining results in the face of the worsening of the automotive market, maintaining an operating loss, which had been occurring since 2014.

Divestment

Since 2015, the Fund has sought alternatives for divestment by hiring an advisor. However, the political/economic environment of the country and the delicate situation of Keko did not attract interested parties. In 2018 the company had very bad results, which were aggravated by the truckers' strike. In this situation the financial situation meant that the shareholders had to assess the situation with the possibility of judicial recovery.

In order to avoid a judicial reorganization process, and despite the lack of prospects for improvements for the company, the Fund opted to sell its stake to controlling shareholders for R$ 1.00.

Projected VersusAchieved

In the investment proposal, the manager presented a valuation containing the projections of the company's financial results for the following years. The following table shows the comparison of the projected results with those actually made.

Table223– Projected XAchieved– Keko

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Investment Proposal											
Net Revenue		43.120	51.913	65.102	78.123	89.550					
EBITDA		6.755	9.757	12,996	16.474	19.133					
Profit / Loss		2.472	3.398	5.688	7.984	9.648					
Achieved											
Net Revenue		38.855	48.116	47.288	59.266	67.422	88.284	91.663	109.387	99.844	111.047
EBITDA		5.335	-648	1.182	-2.547	6.212	13.309	14.587	13.460	11.404	13.079
Profit / Loss		905	-2.395	-2,395	1.801	1.993	1.145	572	-9.300	-15.107	-5.860

Own Elaboration.Source: Economatica

Result, clear investment failure, almost total loss, negative nominal IRR. The return on capital was 0.0x the amount invested.

Table 23–Investment Results – Keko

Company	Segment	Investments	Invested Values	Divestment	Part. In Fund´s Portfolio	Received Value	Nominal TIR	x.K
Keko	Automotive	2007/11/09 2008/06/23	R$ 2.000.008 R$ 2.999.992	2018	9.58%	R$ 262.213	-	0,0x

Own Elaboration.

2.2.4 Information about the Investment in the Company Linpac Pisani

Company´s General Aspects

Company founded in 1973, between the Webber family and the traditional packaging manufacturer, the Belgian plastic packaging, D. W. Plastic (Belgium), with 50% participation for each one. In 1998, the controlling interest in the company (75%) was acquired by the English group Linpac, through the purchase of the stake of D.W.Plastic, the Belgian partner and the entry of new resources in the company. The Webber family remained in the company, diluting its stake to 25%.

The Company was focused on the production of plastic boxes and beverages bottle cellars, but in 1990 it started diversifying mainly due to the reduction in the replacement of glass with PET/can packaging. In 2002, Pisani entered the automotive parts segment, from the Pindamonhangaba/SP plant. At that time, there was an increase in demand for the Food and Beverage sector (bottle cellars 25% and containers 22%). In the automotive sector, the company stood out for the supply of large injected parts, due to the lack of adequate equipment (molds and injectors) from the part of competitors.

Investment Thesis

Growing company, solid management and financial structure, positive cash generation, zero indebtedness and upside potentials through optimization of productive capacity and more aggressive commercial and financial management.

The Fund's contribution was aimed at creating the opening of new units (Northeast and SP / Metropolitan Region), expanding the product mix with entry into new segments, developing new products and business models, meeting the demand for new resources for capital rotation and expansion of productive capacity.

Fund´s Investment Data

- Location: Caxias do Sul/RS;
- Business: Rigid Plastic Products
- Investment Date: August, 2009
- Participation inPIF CRP VI: 39,23%

- <u>Invested Value:</u> R$ 12 million

Investment Summary

2009: Realization of the investment operation, of R $ 12 million, enabling the acquisition of two new large injection machines, to meet the demand for new products in the automotive and beverage segments;

2010: Good operational and financial performance. Increase in sales in the beverage segment, driven by Ambev, which increased orders in line with the introduction of the 1Liter beer bottle in the country. Other customers presented growth, such as Coca Cola, Volkswagen, GM, Peugeot and Randon. The company continued to focus on entering new sectors to diversify customers and markets.

2011: The market is very heated and results are above expectations. Expansion and investment in factories and implementation of the third unit in the Northeast, generating faster market needs. Start of divestment prospects.

2012: Results slightly below expectations due to the increase in international resin costs and increase in import rates, leading to margin adjustment. The divestment process started with the Fund, with the hiring of an advisor.

Divestment

Due to the good operational performance of the company and the achievement of more long-term goals estimated for the operation, the search for divestment began. The best proposal was the sale of the entire 39.2% stake held by the CRP VI Fund, together with the other minority shareholders, to the controlling shareholders.

The divestment amount for the Fund was R$ 57.3 million. Including dividends and interest on equity, interest on capital received over the years, the total amount received was R $ 59.9 million.

Projected VersusAchieved

In the investment proposal, the manager presented a valuation containing the projections of the company's financial results for the following years. The following table shows the comparison of the projected results with those actually made.

Table 24 – Projected X Achieved – Linpac Pisani

	2009	2010	2011	2012	2013
Investment Proposal					
Net Revenue	109.111	125.477	138.025	151.828	159,419
EBITDA	11.263	13.209	14.811	16.597	17.744
Profit / Loss	4.329	4.155	5.393	6.556	7.510
Achieved					
Net Revenue	102.232	146.714	157.547	175.089	188.500
EBITDA	7.182	20.269	21.385	21.212	16.601
Profit / Loss	3.564	11.138	10.272	11.080	4.634

Own Elaboration. Source: Economatica

As a result, the investment is successfully completed with a nominal IRR of 52.71%. The return on capital was 4.9x the amount invested.

Table 25–Investment Results - Linpac Pisani

Company	Segment	Investments	Invested Values	Divestment	Part. In Fund´s Portfolio	Received Value	Nominal TIR	x.K
Linpac Pisani	Plastic	2009/08/20 2009/08/26	R$ 6.000.000 R$ 6.000.000	2013	22,98%	R$ 59.221.814	52,71%	4,9x

Own Elaboration

2.2.5 Information about the Investment in Artmed Editora (Grupo A)

Company´s General Aspects

Artmed started its activities in 1973, as a distributor and reseller of books in the health area. From 1979, the company started to publish its own titles in the area of mental health, and then started to publish in the medical, exact and human areas. At the time of the investment proposal, Artmed had more than 1,500 titles published in 4 labels (Artmed, Bookman, Pátio and BMJ), being a leader in the areas of mental health (psychology and psychiatry) and teacher training and the second largest publisher of country's biosciences.

The Company was recognized in the market for its ability to build solid relationships with authors, foreign publishers, professors, and scientific and educational institutions. These partnerships, together with its national coverage and strong market orientation, guaranteed an excellent editorial performance, resulting in a growth rate well above the market average.

Investment Thesis

Artmed is a leading company in the publication of physical books, technical journals and other digital, scientific and professional (TCP) formats in Portuguese, with over 35 years of experience in the market. The Fund's entry into the company aimed its growth, executing a consolidation plan and improving governance.

Originally identified competitor acquisition opportunities. The objective was to carry out investment operations totaling up to R$ 50 million, reaching a 20% stake for the Fund.

Fund´s Investment Data

- Location: Porto Alegre/RS
- Business: Technical Literature Editor
- Investment Date: September, 2009

- Participation in PIF CRP VI: 2,38%
- Invested Value: R$ 2,136 million

Investment Summary

2009: first round of investment of the Fund in the amount of R$ 2 million and acquisition of the Brazilian unit of McGraw Hill.

2010: second round of investment in the amount of R$ 136 thousand, acquisition of the publisher Artes Médicas, launch of the online catalog at the link minhabibliotecadigital.com, in partnership with Saraiva, Gen and Atlas, acquisition of the medical content portal Medicina.net and launch of the Tekné seal. Company name changed to Group A.

2011: partnership with the company Blackboard, entering the segment of distance learning and acquisition of GSI, startup specialized in e-learning.

2012: consolidation of digital businesses and services in education seeking to resume growth of the Company.

2013: renewal of the exclusive representation contract with Blackboard and growth in the participation of the new business area in the Company's total revenue.

2014: purchase of Positivo's customer portfolio in the LMS (education platform) area, which had more than 100 thousand students. Partnership closed with Kaltura (video management platform for media and education), where Group A would be the distributor of the education area in Brazil.

Divestment

Since 2011 the Fund had been prospecting investment outlets, but negotiations were not going ahead. With price signals below expectations and the negative evolution of divestment processes, it was decided to evolve into a repurchase operation by the controlling partners, as provided for in the Shareholders' Agreement. The transaction involved the sale of the totality of minority investors' interest to the Company's controlling shareholders for an amount of R$ 2,247,287. Including dividends and received over the years, the total amount received was R$ 3.9 million.

Projected VersusAchieved

In the investment proposal, the manager presented a valuation containing the projections of the company's financial results for the following years. The following table shows the comparison of the projected results with those actually made.

Table 26 – Projected X Achieved - Artmed (Grupo A)

	2009	2010	2011	2012	2013	2014	2015
Investment Proposal							

Net Revenue	54.145	62.267	71.607	78.768	86.645	89.244	
EBITDA	17.112	20.209	23.323	26.338	29.459	30.384	
Profit / Loss	9.364	9.265	10.915	12.925	15.100	15.535	
Achieved							
Net Revenue	47.114	69.231	63.949	71.740	77.114	86.471	82.798
EBITDA	14.712	18.021	12.635	15.128	21.870	25.297	10.640
Profit / Loss	7.461	6.753	3.280	4.540	11.363	13.569	9.884

Own Elaboration.Source: Economatica

As a result, the completion of the investment obtained a nominal IRR of 12.09%. The return on capital was 1.9x the amount invested.

Table27 - Investment Results - Artmed (Grupo A)

Company	Segment	Investments	Invested Values	Divestment	Part. In Fund´s Portfolio	Received Value	Nominal TIR	x.K
Artmed Editora (Grupo A)	Editorial	2009/09/09 2009/05/20	R$ 2.000.073 R$ 136.267	2015	4,09%	R$ 3.969.148	12,09%	1,9x

Own Elaboration.

2.2.6 Information about the investment in the company Sulmaq

Company´s General Aspects

Company founded in 1971, aiming to offer pork meat processing machines, meeting the growing demand of the sector in Rio Grande do Sul. The company has always sought technological improvements, of quality. With accelerated growth, it became the leader in the segment of equipment for slaughtering and deboning pigs and cattle.

Investment Thesis

Company well positioned in the food chain, where Brazil has global competitiveness, potential for great expansion in the long term through strategies such as: (i) acting in the management of the entire project (turn-key); (ii) Joint-Ventures - technology transfer, entry into the European market and production of new equipment in Brazil.

Fund´s Investment Data

- Location: Guaporé/RS
- Business: Manufacture and integration of equipment for slaughter, deboning and industrialization of cattle and pigs
- Investment Date: September, 2009
- Participation in PIF CRP VI: 7,69%
- Invested Value: R$ 5 million

Investment Summary

2009: investment of R$ 5 million in the Company.

2010: consolidation of large companies in the sector affects Sulmaq's performance, given the low volume of investments made. Operation approved in two investment rounds, however due to the low performance of the year, agreed with shareholders not to make the second contribution.

2011: the Brazilian market remains in an adverse situation, the company starts a stronger internationalization process, with the opening of a commercial office in Germany.

2012: the company starts to resize its structure and returns to generate results. The market is showing signs of recovery, with the resumption of the pipeline of large customers.

2013: actions focused on budgetary control and resumption of sales, partial recovery of margins and improvement in turnover, reducing the Company's net debt.

Divestment

During the investment period, due to the impact suffered by adverse market conditions, Sulmaq performed below the projections of the original Business Plan, both in terms of revenue and in terms of profitability. The 2008 economic crisis and the consolidations in the Brazilian meat industry negatively influenced the investments of the main players in the meat industry.

In view of the alternatives studied, the best opportunity for the exit of the CRP VI Venture Fund was to repurchase the participation by the controlling shareholders. The divestment took place in November, 2014, through the sale to controlling shareholders. The Fund received R$ 3.5 million, R$ 2.8 million in 2015, totaling R$ 6.3 million.

Projected VersusAchieved

In the investment proposal, the manager presented a valuation containing the projections of the company's financial results for the following years. The following table shows the comparison of the projected results with those actually made.

Table 29– Projected XAchieved– Sulmaq

	2009	2010	2011	2012	2013	2014
Investment Proposal						
Net Revenue	63.850	76.620	91.944	105.736	121.597	
EBITDA	14.057	17.343	21.788	25.637	30.119	
Profit / Loss	7.122	8.694	11.392	13.662	16.280	
Achieved						
Net Revenue	68.263	59.141	53.096	60.288	64.968	82.231
EBITDA	6.993	-2.269	785	132	7.351	4.482
Profit / Loss	2.653	-1.505	5.204	-3.040	5.001	9.160

Own Elaboration.Source: Economatica

As a result, the completion of the investment obtained a nominal IRR of 4.75%. The return on capital was 1.3x the amount invested.

Table 280–Investment Results– Sulmaq

Company	Segment	Investments	Invested Values	Divestment	Part. In Fund´s Portfolio	Received Value	Nominal TIR	x.K
Sulmaq	Equipment	2009/12/23	R$ 5.000.000	2014	9,58%	R$ 6.318.252	4,75%	1,3x

Own Elaboration.

2.2.7 Information about the investment in the company BR Supply

Company´s General Aspects

BR Supply started its activities in 2007 managing supplies for the corporate segment, with six product lines: Office Supplies, Computers, Coffee Break, Personal Protection Equipment (PPE), Hygiene and Vehicle and special equipment rental.

The distribution of supplies in Brazil was widespread, and family businesses predominated, with little aggressive management and without professionalization. BR Supply stood out for its focus on service, quality and professional management and the structure of systems and processes.

Investment Thesis

BR Supply's business model was unique and innovative, as it was conceived as a complete provider of corporate supply management services and not just another distributor in the market. The Fund's objective was to open new commercial units, improve its internal structure and to enter new segments, in addition to implementing an aggressive project to acquire complementary companies.

Fund´s Investment Data

- Location: São Leopoldo/RS
- Business: Point-to-point sales and distribution of corporate supplies for companies
- Investment Date: December, 2009
- Participation in PIF CRP VI: 33,33%
- Invested Value: R$ 12 million

Investment Summary

2009: investment of R$ 7.0 million made in the Company.

2010: second round of investment in the Company of R$ 3.0 million, with positive performance, good growth rates.

2011: new investment operation by the Fund in the Company, R$ 2.0 million, seeking continued growth, with an attempt to expand the business to São Paulo, unsuccessful.

2012: The Company BR Supply went through a strong internal reorganization process, discontinuing the equipment rental activity, with a greater focus on the supply activity.

2013: launch of four new product families (collectors, gardening tools, office equipment and electrical equipment) and carrying out various works to adjust internal processes and operational optimizations.

2014: expansion of the distribution center and investments in processes and automation. Consolidating profitability and increasing efficiency. Focus on commercial expansion, with reinforcement of the team. Opening of a commercial branch in São Paulo.

2015: the company was stagnant in the first half compared to the previous period, due to the increase in the structure to meet the expected growth. In the second half, there was an improvement in commercial and operational performance, which contributed to the improvement in results. Adding new products to existing customers and closing new contracts, with a good prospect of consumption. In that period, work on the Divestment of the Fund began. The process was postponed to the following year, due to better liquidity conditions.

2016: the company presented a very positive performance with good cost control and exceeding targets. Prospecting for divestments continued in progress.

Divestment

In August 2017, the Manager sent to the Investment Committee a proposal for the divestment in BR Supply, through the sale of all the shares and rights held by the Fund to the E-Bricks investor, in cash, for the amount of R$ 35 million. The purchase and sale agreement were signed in November, 2017, payment of R$ 35 million to the Fund.

Projected VersusAchieved

In the investment proposal, the manager presented a valuation containing the projections of the company's financial results for the following years. The following table shows the comparison of the projected results with those actually made.

Table 291– ProjectedXAchieved - BR Supply

	2009	2010	2011	2012	2013	2014	2015	2016
Investment Proposal								
Net Revenue	15.722	37.390	61.290	87.526	117.384	119.732		
EBITDA	-716	2.326	5.298	8.386	11.950	12.189		
Profit / Loss	-994	1.312	3.256	5.277	7.613	7.396		
Achieved								
Net Revenue	16.357	36.008	63.395	56.697	66.350	88.940	100.106	128.443
EBITDA	-1.941	-5.194	-512	-1.505	3.162	6.955	6.846	14.210
Profit / Loss	2.824	-6.592	-3.486	-4.514	-534	1.566	942	5.633

Own Elaboration.Source: Economatica

As a result, the completion of the investment obtained a nominal IRR of 15.40%. The return on capital was 2.9x the amount invested.

Table 302–Investment Results - BR Supply

Company	Segment	Investments	Invested Values	Divestment	Part. In Fund´s Portfolio	Received Value	Nominal TIR	x.K
BR Supply	Services	2009/12/29 2010/07/30 2011/09/26	R$ 7.000.000 R$ 3.000.000 R$ 2.000.000	2017	22,98%	R$ 35.159.577	15,40%	2,9x

Own Elaboration.

2.2.8 Information about the Investment in the Company LGTech

Company´s General Aspects

Company founded in 2007 working on the development and manufacture of residential, commercial and accessibility elevators. Initial sales of parts and components only, the lifts began to be sold in late 2008, in the residential segment, adding building elevators (multi-user) at the end of 2009, rapidly increasing revenue.

The company explored itself with important competitive advantages such as: (i) innovation as a local supplier, (ii) world-class concepts and technology, (iii) broad product mix, (iv) flexibility in meeting specific needs and (v) agility in the definition of projects, with own software, for customizing solutions.

Investment Thesis

Operating with international technology, it has become an alternative for the Brazilian market in the exploration and recognition of its innovations, relying on FINEP (2008) in the development of projects and with the opportunity to expand margins with new sales linked through the provision of services.

The Fund's entry was aimed at expanding manufacturing capacity, expanding commercial units to other Brazilian states and developing new products.

Fund´s Investments Data

- Location: Guaíba/RS
- Business: Elevators manufacturing and building automation and elevation solutions;
- Investment Date: Approval by CI in Sept, 2010, investment in March, 2011;
- Participation in PIF CRP VI: 31,8%
- Invested Value: R$ 3,5 million

Investment Summary

2011: Fund contribution of R$ 3.5 million. Strong commercial expansion with start of sales to large national construction companies.

2012: Verified the fragility of internal processes and the absence of an appropriate Enterprise Management ERP software, as well as deficiencies in the management area, which reflected problems in manufacturing and installation, delays and extraordinary costs, in addition to a deterioration in relations with suppliers and market image, aggravating the risk of operation and business continuity.

Divestment

The valuation in the divestment process at LGTech was accelerated by negative operational aspects

During the period in which the Fund was the Company partner, LGTech was marked by accelerated growth and positive market exposure. On the other hand, this accelerated growth was not accompanied by the entrepreneur's management and technical profile, generating significant losses

In addition, due to the delicate equity situation of the company and mainly due to the lack of audited balance sheets, the Fund conservatively decided to provision as a “doubtful creditor” 100% of the investment's accounting balance, of R$ 3.5mi, which was validated by the shareholders

In this scenario, the company started to think about strategic alternatives, being approached by an Asian multinational (Mitsubishi) with a proposal to buy the Fund's participation for the same committed nominal value. Considering the situation of high cash stress, which posed as a risk of business continuity in the short term, the Fund chose to accept the proposal, redeeming the committed amount.

In 2013, Mitsubishi proposed to purchase control of the Company. Mitsubishi's acquisition of control of LGTech was divided into two parts:

(i) acquisition of all the shares held by the CRP VI Fund (31.8%) and by the non-founding executives (14%) and (ii) capital increase in the amount of R $ 60 million, diluting the controlling partner of 54,2% to 8.4% of participation. The Fund sold its stake to Mitsubishi for R $ 3.5 million.

Due to zero nominal return, lower than the expected nominal return, the transaction had a negative impact on the Fund's consolidated return.

Projected VersusAchieved

The Fund presented a valuation with projections of the company's financial results. The table below shows the comparison of expected and realized results.

Table313– Projected XAchieved– LGTech

	2011	2012	2013
Investment Proposal			
Net Revenue	9.462	27.979	43.930
EBITDA	-13	2.717	5.754
Profit / Loss	-818	819	2.631
Achieved			
Net Revenue	17.004	26.617	
EBITDA	174	-18.712	
Profit / Loss	100	-14.629	

Own Elaboration.Source: Economatic

As a result, the completion of the investment obtained a nominal IRR of 0.0%. The return on capital was 1.0x the amount invested.

Table 32–Investment Results– LGTech

Company	Segment	Investments	Invested Values	Divestment	Part. In Fund´s Portfolio	Received Value	Nominal TIR	x.K
LG Tech	Elevators	2011/03/03	R$ 3.500.000	2013	6,70%	R$ 3.499.972	0,00%	1,0x

Own Elaboration

3. RESULTS AND FUND´S ACTUAL SCENARIO

The Fund's performance can be verified from several perspectives: nominal and real IRR, comparison with the Hurdle Rate, and by variation of the value and of quotas. However, the simple verification of profitability does not guarantee a relative conclusion of success or failure of the investment, being necessary to verify its Opportunity Cost[16].

3.1 Nominal and Real IRR ("Hurdle Rate" deflator)

Consolidating the results of all invested companies, it is possible to verify that, from the 8 investments, two cases were of total loss (Teikon and Keko), two with expressive returns (Pisani e BR Supply), the others with returns 1 to 2 times the amount invested.

Table335–Portfolio Overview

Company	Segment	Investment	Invested Values	Divestment	Participation in the Fund´s Portfolio	Received Value	Nominal TIR	x.K
Teikon	Electronics	2006/06/29 2007/06/29 2007/07/13 2008/12/09	R$ 2,000,000 R$ 3,000,000 R$ 3,999,180 R$ 3.082,391	2015	23,14%	R$ 212.158	-	0,0%
Linpac Pisani	Plastic	2009/08/20 2009/08/26	R$ 6.000.000 R$ 6.000.000	2013	22,98%	R$ 59.221.814	52,71%	4,9x
Artmed Editora (Grupo A)	Editorial	2009/09/09 2009/05/20	R$ 2.000.073 R$ 136.267	2015	4,09%	R$ 3.969.148	12,09%	1,9x
Sulmaq	Equipment	2009/12/23	R$ 5.000.000	2014	9,58%	R$ 6.318.252	4,75%	1,3x
BR Supply	Services	2009/12/29 2010/07/30 2011/09/26	R$ 7.000.000 R$ 3.000.000 R$ 2.000.000	2017	22,98%	R$ 35.159.577	15,40%	2,9x
LG Tech	Elevators	2011/03/03	R$ 3.500.000	2013	6,70%	R$ 3.499.972	0,00%	1,0x
Wallerius	Sweets	2006/12/12	R$ 500.000	2008	0,96%	R$ 659.775	16,74%	1,3x
Keko	Automotive	2007/11/09 2008/06/23	R$ 2.000.008 R$ 2.999.992	2018	9.58%	R$ 262.213	-	0,0x
TOTAL FUIND			**R$ 52.217.911**		**100%**	**R$109.309.909**		

Own Elaboration.

16 CARVALHO (1998, p. 158) defines that "the Opportunity Cost measures the value of missed opportunities as a result of choosing a production alternative over another that is also possible ".

The simple calculation of the investee's IRR is not sufficient to verify the Fund's profitability. In order to determine the Fund's IRR, a calculation was carried out consolidating the shareholders' payments in addition to the amortizations that occurred during their entire term, using the monthly flow.

However, the calculation using gross values determines only the nominal IRR, that is, it ignores the effects of inflation on income.

Table346–Return Internal Fee

Year	Nominal Flow
2006	-R$ 4.240.000,00
2007	-R$ 9.780.000,00
2008	-R$ 6.559.152,73
2009	-R$ 26.992.073,08
2010	-R$ 6.119.426,35
2011	-R$ 2.615.349,50
2012	-R$ 277.407,32
2013	R$ 56.600.000,01
2014	R$ 5.584.837,12
2015	R$ 6.467.507,11
2016	-
2017	R$ 34.549.577,32
2018	R$ 317.000,00
TIR*	**10,71%**

** Values based on calculation performed with monthly opening*

Own Elaboration

According to the table above, the Nominal Cash Flow of the Fund presented an IRR of 10.71% /year.

In order to verify the Real IRR, it is necessary to discount the value of the accumulated inflation in the period, applying the Fischer equation[17].. The most widely used inflation index is the IPCA, calculated by the IBGE, which is the official Brazilian inflation index.

3.2 Hurdle Rate

However, to find a satisfactory return on investments, the feasibility and/or success of a project is evaluated by comparing the projected or realized IRR with the MAR (Minimum Attractiveness Rate) and not simply with inflation. In PIFs, the investment success indicator is known as the Hurdle Rate, which is nothing more than the English term for MAR itself.

When constituting the Fund and as provided in the regulations, the Hurdle Rate of the Fund corresponds to an IPCA rate + 10%/year. When realizing the return achieved by the Fund, using its Hurdle Rate as a "deflator", the Real IRR is calculated.

The most commonly used way is to annualize the inflation accumulated during the period of validity of the Fund and to discount it from the Nominal IRR, using the Fischer equation.

Applying the methodology for CVP VI Venture – PIF, we have

$$(1) \quad \pi \text{ annualized} = (\pi \text{ accumulated} + 1)^{[1/(\frac{\text{months}}{12})]} - 1$$

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[17] $\text{Real Fee} = \left[\frac{\left(1+\frac{\text{nominal fee}}{100}\right)}{\left(1+\frac{\text{accumulated inflation}}{100}\right)} - 1\right] \text{x}100$

Where,

- π accumulated = 101,29 % of accumulated inflation between Jan/2006 and Oct/2018 (IPCA – IBGE);
- months = 154 months between Jan/2006 and Oct/2018.

$$(2)\pi \text{ annualized} = 5{,}42\%/\text{year}$$

With the result of (2), the value of the Nominal IRR discounted from the annualized π is calculated using the Fischer equation:

$$(3) \quad \text{Real TIR} = \frac{(10{,}71\% + 1)}{(5{,}42\% + 1)} - 1 = 4{,}66\%$$

As verified, the Fund performance at a Real IRR of 4,66%/year, similar to the Hurdle Rate, we have IPCA + 4,66%/year.

As a conclusion, the investment results, compared to the Hurdle Rate, were very below from the presumed expectations, at least IPCA + 10%/year. Thus, in absolute terms, the Fund **has not** met its objectives.

3.3 Profitability determined by the Quota System

In addition to calculating profitability by the IRR, it is possible to determine the Fund´s profitability by varying the value of the quotas. In this case, profitability is calculated through fluctuations in the value of the quotas, making it possible to analyze and visualize more dynamically the impacts of assets purchases and sales and changes in strategies.

In the last audited financial statement of the Fund, in 2018, it is possible to verify profitability through the semiannual variation of the quotas.

Table 37 - Rentability through the quota system (semiannual variation)

Date	Net worth R$ th	Profitability %		Quota Value in R$	Ammortization Value Accumulated by Quotas in R$ (*)
		Semester	Accumulated		
2005/12/31				20.000	
2006/06/30	2.194	(24,36)	(24,36)	15.128	-
2006./12/31	2.759	(10,26)	(32,12)	13.576	-
2007/06/30	6.419	13,93	(22,67)	15.467	-
2007/12/31	11.576	6,77	(17,43)	16.514	-
2008/06/30	14.880	2,28	(15,55)	16.890	-
2008/12/31	17.241	(0,23)	(15,75)	16.265	586
2009/06/30	17.281	(2,53)	(17,88)	15.854	570
2009/12/31	43.238	10,87	(8,95)	17.867	343
2010/06/30	49.129	0,97	(8,07)	18.082	305
2010/12/31	49.257	0,04	(8,03)	17.840	554
2011/06/30	49.868	0,50	(7,57)	17.715	771
2011/12/31	45.873	(10,97)	(17,71)	15.577	881
2012/06/30	46.301	0,50	(17,30)	15.579	961
2012/12/31	39.308	(14,23)	(29,06)	13.226	961
2013/06/30	39.136	(0,41)	(29,35)	13.168	961
2013/12/31	27.560	107,22	46,39	9.273	20.006
2014/06/30	25.396	(0,19)	46,12	8.545	20.678
2014/12/31	22.638	0,85	47,37	7.617	21.856
2015/06/30	19.044	1,75	49,95	6.408	23.582
2015/12/31	17.583	(0,20)	49,64	5.916	24.012
2016/06/30	17.334	(0,28)	49,22	5.832	24.012
2016/12/31	17.055	(0,31)	48,75	5.738	24.012
2017/06/30	16.835	(0,25)	48,38	5.664	24.012
2017/12/31	1.438	21,61	80,45	484	35.607

2018/06/30	1.349	(0,08)	80,30	454	35.607
2018/09/30	220	(0,96)	78,57	74	35.641

Source: Ernst & Young (2018). DF Audited- PIF CRP VI

- Through the quota system, it appears that the Fund obtained an accumulated return of 78,57%, since its beginning until liquidation. Bearing in mind that the accumulated inflation between Jan/2006 and Oct/2018 (IPCA – IBGE) was 101,29%, again we conclude that the **Fund´s result was insufficient**.

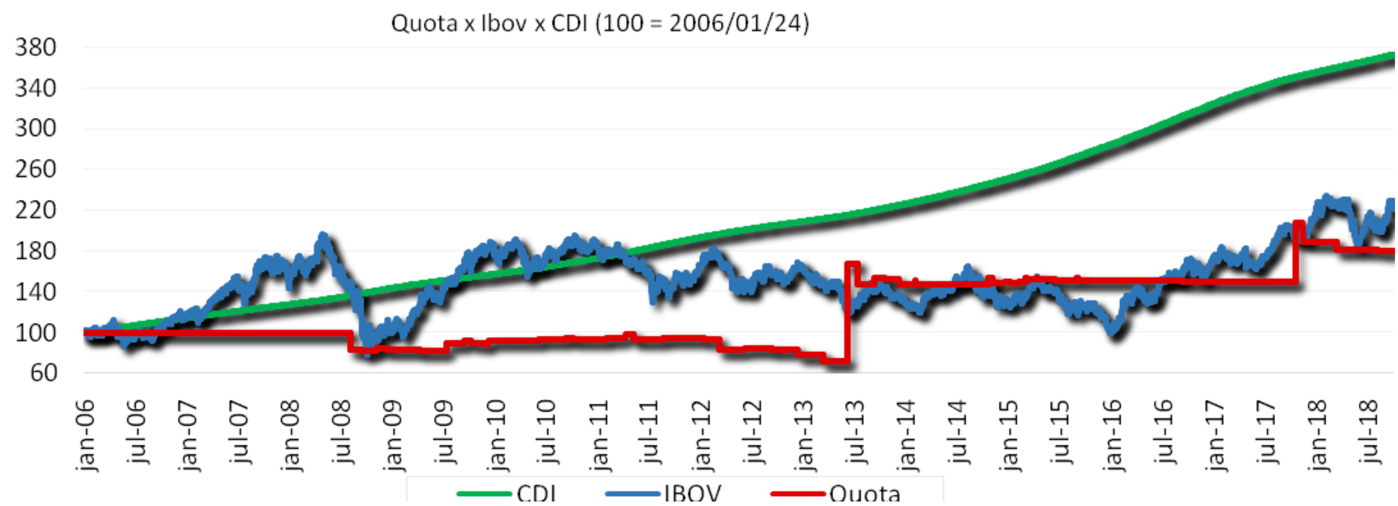
3.4 Opportunity Cost

Even though under the analysis of the Hurdle Rate, the Fund was under expectations and did not fulfill its objectives, it is possible to take into account other indicators in order to verify its relative profitability.

Using the Fund´s daily profitability through the quota system, it is possible to compare the Fund´s performance with other types of investments.

The IBOVESPA (São Paulo Stock Exchange Index) representing variable income and the IDC (Interbank Deposit Certificate), was used for the fixed income. In order to make the graphical comparison feasible, the time series were placed in 100 base, on 2006/01/24

Figure 4–Profitability Comparison– Private Securities



Own Elaboration. Source: Bloomberg and Economatic.

The Fund yielded 78,57% during its term, while the IBOVESPA yielded 124,06% and the IDC yielded 273,49%, that is, the Fund´s performance was worse than both higher risk (IBOVESPA) and lower risk (IDC) investments.

3.5 Extensions and Economic Situation

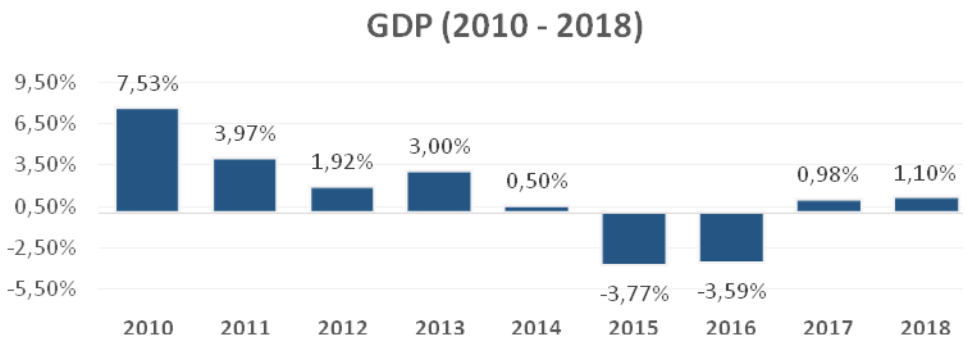
From 2014, the Fund´s divestment term has been extended 4 times for a total of 4 years. The duration initially foreseen went from 9 years to 13 years. In the first extension, in 2014, there were still 3 companies: Teikon, Keko and BR Supply. In the second and third extensions, in 2015 and 2016, there were still two companies in the portfolio: Keko and BR Supply. Finally, in the last extension, in 2017, only Keko remained, divested in 2018, allowing the liquidation of the Fund.

Not surprisingly, the Fund´s extensions occurred after the beginning of the Brazilian political and economic crisis in 2014, with its first signs appearing in 2011.

According to Barbosa Filho (2017), the Brazilian economy was formally in recession since the second quarter of 2014, economic growth was negative for two consecutive quarters. Between 2014 and 2016 the Brazilian GDP/per capita fell about 9%.

On 2015/09/09, Brazil lost its "Investment Grade" rating and began to show fiscal deficits caused by uncontrolled public accounts. The crisis resulted from a process of change in Brazilian economic policy with the advent of the New Economic Matrix (NEM)[18] adopted from 2011/2012, abandoning the "Tripod of Macroeconomic Support", based on Inflation Target, Exchange to Market and Fiscal Superavit.

Figure5 - Annual Variation of the Brazilian GDP (2010 - 2018)



Own Elaboration: Source: IBGE

Since 2011, that is, before the crisis was formalized, the Teikon Company had already suffered impairments. From the confirmation of the economic and political crisis, the performance of all other companies in the portfolio was impaired. In addition, there was a severe loss of liquidity, given the adverse expectations of investors.

According to NCEA (National Classification of Economic Activities), the companies in the portfolio were classified as: Teikon, manufacture of electronic components (NCEA 2610800); Keko, manufacture of parts and accessories for motor vehicles (NCEA 2949299) and BR Supply, wholesale of hygiene, cleaning and home maintenance products (NCEA 469408). For a more adjusted verification we will use the GDP disaggregated by their sector of activity.

Thus, according to the IBGE, the GDPs of industry and services (including commerce trade) presented the following variations:

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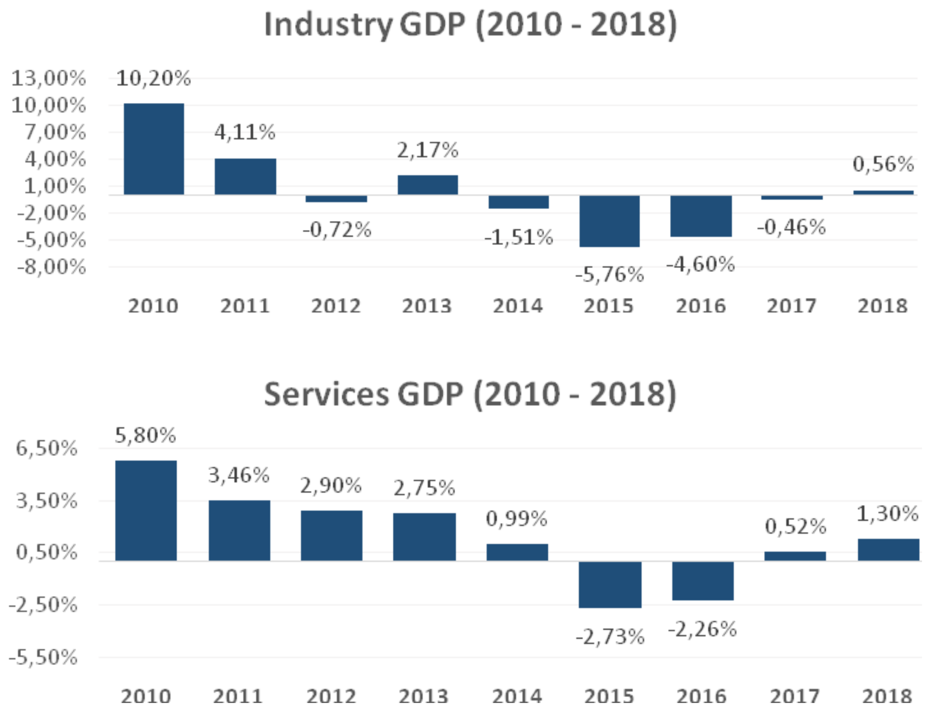
[18] "The NEM was based on strong government intervention and included a reduction in the basic interest rate, price control, targeted investments ("Champion Entrepeneurs") and subsidies. (Barbosa Filho, 2017, pg. 59).

Figure6 - Annual GDP Variation for Services and Industry



Own Elaboration. Source: IBGE.

The Industry GDP was the most affected, already showing a fall in 2014, which continued until 2017.

In this scenario, the macroeconomic environment imposed extensions to the Fund, due to the difficulties of companies still in the portfolio. Due to aggravation on the bad results and the risk of generating liabilities for the Fund, it was decided to force the liquidation of Teikon and Keko to the respective controllers for R$ 1,00, that is, total investment loss. Not by chance, these companies were industries, the sector most affected by the crisis. Teikon was the company with the largest invested amount and Keko was the fourth, so the Brazilian economic crisis contributed a lot to the failure of the PIF.

3.6 Considerations about the current PIF market

In September 2016, Operation Greenfield was triggered by the Federal Police, in conjunction with the Federal Public Ministry, with the support of PREVIC (Superintendence of Complementary Welfare) and the CVM. In this operation, deviations were investigated and found in pension funds, public and state banks.

As already mentioned, public and private pension funds are the largest investors in Private Equity and Venture Capital, that is, PIFs. Like the CRP VI Venture, in which this type of investor has a notable 40.65% stake in the Fund, in other PIFs, the stakes are even larger and even majority.

The said task force found that the largest Brazilian pension funds, notably Funcef (Caixa Econômica Federal), Petros (Petrobras), Previ (Banco do Brasil) and Postalis (Correios), were targets of fraud, through their leaders, causing billionaire deficits to them.

The investigation found that a large part of the irregularities occurred in investments in PIFs, where quota acquisitions were carried out based on fraudulent economic-financial assessments that overestimated the values of the invested companies, criminally increasing the amounts to be disbursed by the pension funds. At least 8 PIFs were the target of evidence and evidence of illegal activities: PIF Sondas, PIF Multiner, PIF Global Equity Properties, PIF Florestal, PIF Cevix, PIF OAS Empreendimentos, PIF Enseada and PIFPIF RG Estaleiros.[19]. From the Greenfield operation, new investigations were launched in several other PIFs that had holdings in pension funds.

The results of such investigations resulted in arrests, fines, punishments by the CVM, among other measures, to officers and former officers involved in the frauds. Some pension funds underwent intervention, others changed their executive staff, focusing on strengthening compliance and corporate governance.

However, the scenario presented has seriously affected the image of PIFs before the market. The main criticism from investors and the market is regarding the constitution of the Investment Committee. It is claimed that, due to their large participation in PIFs, pension funds may appoint representatives who direct investments against technical criteria. In this way, investments that are technically based on managers, market professionals, experts, are neglected by others of notorious poor quality, giving scope for actions such as those found in the Greenfield task force.

Comodo (2009) makes a comparison between the Private Equity and Venture Capital structures in the USA and abroad with the Brazilian structure. The author states that abroad, where the Limited Partnership structure is adopted, the “Financial Investor” management model is predominant.

Comodo (2009, p. 25), definesFinancial Investor:

> Traditional Financial Investors are largely focused on creating value through the aforementioned financial engineering and improving the company´s management model, with the introduction of strong financial incentives. The model used is based mainly on a passive management approach that tries to extract much more value at the time of the deal than during its maturation and divestment period.

In Brazil, on the other hand, an “Interventionist Investor” model is adopted, based on the requirements of the ICVMs that regulate the operation of the PIFs. Comodo (2009, p. 26), also defines Interventionist Investor:

> (...) the interventionist management model focuses on activism within a relatively diversified, but closely related, portfolio of companies. Although they originate from the fundamentals of traditional PE/VC Financial Investors, interventionist investors seek more directly a strategic positioning of their investment portfolio and the optimization of returns through gains of scale derived from the specific knowledge acquired and strong and differentiated placement of its companies invested in a certain sector.

Consolidating the inherent high-risk characteristic of PIFs, which led to unsatisfactory results, as in the case of CRP VI Venture, together with the aforementioned acts of corruption, such investments

[19]http://www.mpf.mp.br/df/sala-de-imprensa/docs/greenfield-doc-11
http://www.mpf.mp.br/df/sala-de-imprensa/docs/greenfield-aia-funcef-e-petros - Acessed in 2019/05/30.

generated large liabilities in the pension fund portfolios. Thus, in a movement initiated by Funcef and expanded by Petros, they seek to divest the shares of some PIFs, especially problematic ones, through the secondary market, as a kind of bad credits[20], which highlights current crisis in this market.

Recently, Petros, through its president, defended that changes need to be made with changes in the regulatory framework of the PIFs, in order to approach the existing rules abroad[21].

Finally, in a report on the "Capital Aberto" website, a discussion group, which was attended by the chairman of ANBIMA's PIFs committee and management partners, addressed the topic "Are PIFs ready for a new chance?"[22].

In summary, the participants talked about the situations that occurred, current problems and what are the viable paths for modernization, both in terms of functioning and management of this market. A point addressed by several participants was the problems caused by the investment committees. In conclusion, it was found that PIFs are important investment vehicles for Private Equity and Venture Capital, and can be quite useful and profitable, specially if they have regulatory modernization and if used for their proper purpose, generate economic development by financing high-risk ventures.

4. CONCLUSION

Investments in Private Equity and Venture Capital are of paramount importance for the development of a modern economy. The growth of such a modality is evident in Brazil, where there is a huge need for growth.

The Brazilian capital market has also been developing, increasing its reach to the public and modernizing itself technologically, however, the data presented here still show a predominance in investments in fixed income. It is not by chance that Brazil is often referred to as "the country of fixed income". Investments in variable income, such as PIFs (PE / VC) inject capital directly into companies considered promising, are accelerators of the growth process. With the great cuts in SELIC, the basic interest rate in Brazil, which occurred recently, there is a great incentive to take investments directly to the capital market.

Using real experience, the dynamics of an investment in PE / VC were demonstrated, through the PIF vehicle. The results obtained from CRP VI Venture - PIF were unsuccessful in terms of profitability for its investors. From the cases observed, the main factor for failure was the macroeconomic instability that Brazil experienced during the term of the Fund, leading to an atypical 4-year extension of the Fund. Also relevant was the exclusively regional character adopted by the Investment Committee to select companies,

[20]https://www.valor.com.br/financas/6137049/petros-negocia-venda-de-um-terco-da-carteira-de-PIFs - Acessed in 2019/05/30.
[21]https://oglobo.globo.com/economia/petros-defende-mudancas-nas-regras-dos-fundos-de-investimento-em-participacoes-22655205 - Acessed in 2019/05/30.
[22]https://capitalaberto.com.br/secoes/reportagem/PIFs-estao-prontos-para-uma-nova-chance/ - Accessed in 2019/05/30.

exclusively from the state of Rio Grande do Sul.

It is noted, therefore, that despite being a type of high-risk investment, structural and economic factors have high impacts on its results.

In the broader scope of the PIF vehicle, investors are very dissatisfied with the regulatory aspect, which points to excessive bureaucracy and perception of persistent levels of corruption.

As exposed, there is a need for a stable economic environment favorable to investments, as well as the revision of the PIFs regulatory framework so that this vehicle resumes its prominent role in the PE / VC industry, which is extremely necessary and useful for the development of the Brazilian economy.

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