

Fitch Affirms Vinci Equities' Rating at 'Strong'

Fitch Ratings-Bogota-01 March 2019: Fitch Ratings has affirmed Vinci Equities Gestora de Recursos Ltda. (Vinci Equities) an Investment Management Quality Rating of 'Strong'. The Rating Outlook is Stable.

KEY RATING DRIVERS

Vinci Equities' 'Strong' rating reflects Fitch's opinion that the investment manager has strong investment capabilities and operational characteristics in relation to the investment strategies offered.

The affirmation is driven by Vinci Equities' a well-established and disciplined investment process and robust research analysis. The rating also reflects the quality and depth of resources and personnel and a solid risk-management framework. Vinci Equities' rating also considers the benefits of being part of Vinci Partners Investimentos (Vinci Partners), its parent company, incorporating its strong control and governance structures, as well as solid operational and technological support.

Vinci Equities' investment management quality rating only includes its activities in the domestic market and does not consider the other units of asset management and business areas of the group, all with their own processes and policies.

Fitch views Vinci Equities' main challenges include the increase assets under management (AUM), the diversification of its investor base and the consolidation of its funds' performance across all strategies.

The 'Strong' rating is based on the following assessments:

- Investment Process: Strong
- Investment Resources: Strong
- Risk Management: Strong
- Investment Performance: Consistent
- Company & Client Servicing: Strong

Incorporated in Sao Paulo, Vinci Equities is a subsidiary of Vinci Partners, which operates in different segments of the capital market through its business units: asset management, wealth management, private equity and financial advisory (M&A and capital markets). As of September 2018, Vinci Equities reported total AUM of BRL4.1 billion, exclusively on focused on equity funds. Vinci Partners is controlled by three main shareholders, which participate in its board of directors, among other minority partners (including three executive from Vinci Equities).

Investment Process

Vinci Equities has a strong research analysis and robust decision-making process based on a bottom up approach, primarily focusing on value strategies. The research process incorporates the macroeconomic view of Vinci Partners and a robust internal analysis of companies which includes valuation models, meetings with executives and a dedicated team segregated by sectors. Fitch

considers the process to be detailed, covering the investment universe and adequately assessing the strategies managed.

Decisions are made by consensus in weekly and monthly committees, in addition to daily morning meetings to monitor markets, in a very stable process. The asset manager has broad access to good quality, detailed and consistent reports from specialized companies. All funds have clearly defined rules and limits, such as eligible assets and the structures defined by contracts.

Investment Resources

Vinci Equities has a well-organized structure with clear responsibilities and segregation of functions. The investment team is considered qualified and experienced, while staff numbers are consistent with the firm's coverage. Senior group staff is highly experienced, evidencing high tenure in the company, while key man risk is reduced by the Group's structure. Control activities, including risk and compliance, are provided by the group. Vinci Partners also manages a unified structure for support and administrative responsibilities such as HR, legal, accounting and technology.

Vinci Partners has a solid technology structure, supporting investment and risk management processes through robust systems, sometimes developed in-house and with a high level of functionality and scalability. Vinci Partners uses a sophisticated front office system (Eze Castle), which allows for an automated workflow, high capacity and scalability. The system provides pre-trading controls, order management and, portfolio analytics.

Fiduciary administration and custody activities are performed by renowned third parties, with daily pricing and NAV calculation, according to local rules. The critical asset and liability databases of the funds are also maintained by the administrator. The reconciliation of the all operational processes are carried out by the group's middle and back office area, with standard procedures and integrated with the platforms of external service providers.

Risk Management

Fitch considers the risk framework to be independent and strong, under a solid set of policies and controls. Monitoring includes daily review of positions and includes stress testing and weekly reports discussed in committees. Risk management (market, liquidity and operational) is performed by the group, providing complete supervision of all exposures and fund limits. The asset manager uses a proprietary system (VRA) for market risk (VaR, tracking error etc.) and liquidity. No significant breaches of funds limits have occurred.

Vinci Equities is also overseen by several external entities (administrators, custodians, auditors, CVM and Anbima). In addition, the operational activities of the funds are performed and controlled by the administrators and custodians, in accordance with local rules.

Investment Performance

Fitch considers VGS's investment performance was in line with objectives, with some strategies outperforming the analyzed peer group by our estimates. Drawdowns performance was, on average, consistent relative to peers.

Company & Client Servicing

Vinci Equities is a subsidiary of Vinci Partners, a strong independent asset management franchise in Brazil. With AUM of BRL24 billion, the group is the 24th largest asset manager in Brazil in 2018. The group was established in 2009 by 24 highly experienced Banco Pactual S.A.'s executives (currently Banco BTG Pactual S.A.) under a partnership model. Vinci Equities was established in 2009, and is a relevant business line of the group, responsible for 21% of earnings in September 2018 (45% in 2017). Vinci Equities' AUM decreased by 3% in the last 12 months.

The asset manager offers a good level of transparency and communication materials to its investors, with the disclosure of monthly reports, complying with the disclosure requirements of the Brazilian Securities and Exchange Commission (CVM) and the Brazilian Association of Financial and Capital Market Entities (Anbima).

RATING SENSITIVITIES

Vinci Equities' rating could be sensitive to relevant adverse changes to any of its key drivers mentioned above, notably in case of a weakening in its financial profile, high turnover of its professionals or deterioration in its processes and policies. An important deviation from Fitch's guidelines for any key driver could result in a rating downgrade.

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Applicable Criteria

Investment Management Quality Ratings (Assessing Active, Passive & Alternative Investment Managers, Strategies & Funds) (pub. 06 Mar 2017)

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