



Dear investors,

Last year the Vinci Mosaico Fund gained 3.5%, while the Ibovespa went up 2.9%. Since the fund was created in July 2010, the Vinci Mosaico Fund's average annualized return has been of 19.01% versus 6.24% of the Ibovespa.

The Brazilian economy posted an important recovery during the second half, as Covid-19 related hospitalizations peaked and the quarantines were loosened. In addition, emergency aid ensured high purchasing power for the lowest income brackets. The external scenario, on the other hand, proved to be quite favorable for exporters, due to high commodity prices, driven by the strength of the Chinese recovery, and the devaluation of the Real.

As a result, the 3Q20 earnings season was very positive as companies in our portfolio had, on a weighted average basis, an EBITDA growth of 25% YoY.

Subsequently, in November, two very relevant events for the market took place: the presidential election in the USA and the announcement of phase 3 trials of Covid-19 vaccines. Joe Biden's victory was interpreted as positive for emerging markets, expecting probably an American foreign policy with a more conciliatory approach. On the race for a vaccine the news was also positive. Phase 3 trials of Pfizer and Moderna showed an efficacy of around 90% and paved the possibility that the pandemic will, in fact, be resolved throughout 2021 in most parts of the world.

In this context, the Brazilian economy ended up shrinking significantly less than imagined at the beginning of the crisis; current estimates for a contraction in GDP are at -4.2% vs -7% in May.

On the other hand, in the domestic scenario, some important risks must be monitored, such as maintaining fiscal discipline, the recent rise in inflation, the upsurge of a second wave and the evolution of reforms.

Despite these uncertainties, we believe that the scenario for the Brazilian stock market remains very favorable and the portfolio reflects our opinion, which is based on a low interest rate environment globally, the recovery of the Brazilian economy and a more favorable context for emerging markets, as recent flows already show. We invest in a selection of well-managed and profitable companies that trade at a discount relative to their fair value. In addition, our portfolio is well diversified between sectors and companies and currently our largest sector exposures are in utilities, commodities and banks.



BTG Pactual: A saga led by merit

Are you going to believe in bankers?!¹

It was the skeptical reaction of the then young André Esteves' mother when he tried to explain to her that he would quit his job at the UFRJ2 department of mathematics, where he was studying, to earn much less at an investment bank. What enchanted André was that he would work in a meritocratic environment, where the fixed salary was surprisingly low, but huge bonuses and stakes in the partnership were granted to those who had outstanding performances.

Despite his mother's discouragement, Esteves did not look back and joined Pactual in 1989 as a discreet IT analyst and it would not take long before he became one of the key players in the bank's history.

Pactual was created in 1983 by Luiz Cezar Fernandes, a former Garantia partner who brought to the bank the values that guided Jorge Paulo Lehman's partnership, such as meritocracy, little hierarchy, incessant search for talent and strong variable remuneration. Three other partners joined Luiz Cezar as founders of Pactual: Paulo Guedes, a Chicago PHD economist and currently Brazil's minister of economy, André Jakusrki, a Harvard MBA and founder of JGP, one of the most respected independent asset managers in Brazil and Renato Bromfman, who was responsible for the Corporate Banking Department in the early years.3

Since its foundation, Pactual has shown its vocation to make money through savvy bets at its proprietary trading desk. The economic chaos and hyperinflation that the country experienced in the 1980s and 1990s meant that more sophisticated investors had enormous competitive advantages over the less informed ones.

In the 90s, while from the outside Pactual looked like an island of prosperity, some conflicts started to emerge at the bank's top command. Luiz Cezar decided to make some personal investments that were not successful, such as the acquisition of the orange juice producer Citromatão and the textile company Teba, which left him an important debt.4

¹ Source: André Esteves' speech at FIESP, 2011. https://www.youtube.com/watch?v=K1FMrMiyePU

² Federal University of Rio de Janeiro – one of the leading universities for researchers back then.

³ Source: Wikipedia

⁴ Source: Piauí Newsletter article, novembro 2006: "De Elefante a Formiga"



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At the same time, Luiz Cezar wanted Pactual to enter the retail business, through the acquisition of BCN bank. Two of his main partners, Guedes and Jakurski, disagreed with his view and decided to leave Pactual in 1998 to create JGP.⁵

The departure of Jakurski and Guedes opened up room for the rise of four young partners: André Esteves, Gilberto Sayão, Eduardo Plass and Marcelo Serfaty. These partners were even more resistant to the idea of Pactual moving towards retail banking and thus Luiz Cezar ended up selling his stake and leaving the bank in 1999.6

From then on, Pactual's leadership began to gravitate towards the Esteves and Sayão. While the former took care of the trading desk, the latter was responsible for the investment bank and the partnership's long-term investments.⁷

In 2006, Pactual was sold to UBS for \$ 3.1 billion⁸. Esteves, who at the time owned about 25% of the bank and was its CEO, left Brazil for London to be responsible for UBS global fixed income division.

In 2008, the Lehman Brothers crisis hit UBS hard as the bank owned an enormous amount of US real estate bonds, which caused losses of \$ 40 billion⁹. At this point, Esteves saw an opportunity to repurchase Pactual for an amount significantly lower than the price paid by the Swiss in 2006.

In 2008, a group of executives led by Esteves created BTG (Banking and Trading Group) and, in the following year, acquired Pactual for US \$ 2.5 billion¹⁰ and rebranded it as BTG Pactual. The timing seemed auspicious as the decade of 2010 began in full swing for the Brazilian economy, which was one of the most promising markets among emerging economies. The 2008 crisis was quickly brought to an end in Brazil thanks to a strong fiscal stimulus and in 2010 Brazilian GDP grew by a remarkable 7.5%.

In this context, BTG Pactual hit the throttle and started to grow in new areas, such as private equity, where it bought from stakes in oil companies in Angola to drugstore chain and hospitals in Brazil. Even a stake in a retail bank focused on class C was acquired; Banco Pan, which at the

⁵ Source: "Big Dream" book. Autor: Cristiane Correa. 2013

⁶ Source: "Big Dream" book. Autor: Cristiane Correa. 2013

⁷ Source: "Big Dream" book. Autor: Cristiane Correa. 2013

⁸ Source: Wikipedia

⁹ Source: https://www.swissinfo.ch/eng/2008-crisis_the-day-ubs--the-biggest-swiss-bank--was-saved/44474630

¹⁰ Source: Wikipedia



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time of the acquisition faced several problems due to accounting fraud. In the trading business, BTG Pactual expanded its operations to energy and commodities.

In addition, BTG Pactual decided to expand to other geographies, acquiring a stake in the Swiss bank BSI, focused on high net worth individuals, and the Chilean broker Celfin, to access Andean clients.¹¹

Part of the money for this great expansion came from the bank's IPO in April 2012, when BTG Pactual raised R\$ 3.6 billion.

Some of the new initiatives did not go as planned, such as Banco Pan and the drugstore chain BR Pharma, whose executions were derailing. In addition, the macro environment deteriorated and Brazil lost its investment grade status in 2015. However, these problems couldn't be compared to what was to come ...

In late 2015 BTG Pactual went through the biggest stress test in its history. In November André Esteves was preventively arrested, accused of obstructing the investigations of Operation Car Wash ¹². Despite being released a few days later and acquitted of these charges in 2018 following a request of the Public Prosecutor's Office, the announcement of the arrest of BTG Pactual's CEO at that time brought an unprecedented crisis of confidence to the bank, which until then was seen as a fortress.

A good example of the consequences could be seen in the asset management division, where redemptions accumulated R\$ 120 billion in the following twelve months, causing the AUM to fall by half.¹³

What followed this tsunami was a real crisis management lecture. On the same day Esteves was arrested, Pérsio Arida, then partner in charge of the asset management division, former head of the Brazilian Central Bank and one of Brazil's most respected economists, was announced as the bank's new chairman. Roberto Sallouti and Marcelo Kalim, two partners who had been in the bank for decades, would jointly replace Esteves in the role of CEO.

¹³ Source: BTG Pactual Earning Release from 4Q16

¹¹ Source: BTG Institutional Presentations, Intestors Relations team

¹² Source: Wikipedia



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A series of divestments were made in a short period of time to ensure the bank's liquidity and solvency, including the sale of the bank's stake in the hospital group Rede D'or, the credit collection company Recovery and the Swiss bank BSI. In addition, the bank cut its expenses in an aggressive way and 20% of job posts in Brazil were terminated at the beginning of 2016. Measures like these made BTG Pactual's fate different from almost all banks that have suffered similar crises of confidence in Brazil and that ended up succumbing.¹⁴

As time went by, the bank started to recover. In 2016 and 2017 BTG Pactual's profit, which had been R\$ 4 billion in 2015, went below the R\$ 3 billion mark. This was a consequence of the deliberate reduction of the credit portfolio in order to reduce its leverage and also a function of less assets under management. However, in 2018 a good part of the operations already showed numbers equivalent to the levels of 2015.

The biggest crisis in the bank's history had become part of the past. However, after BTG Pactual had reigned as the exponent of the Brazilian financial market for twenty years (we are using the year 1998 as the starting point, when Garantia was sold to Credit Suisse), another company started to cast a shadow on it. This new reference was XP Investments, a company that was the main responsible for the massification of alternative investments in Brazil. With a vast network of registered investment advisors (RIAs) and an extensive list of financial products (ranging from medium bank's CDs to international hedge funds, such as Bridgewater), XP brought interesting options to investors that were increasingly bothered by declining returns of their investments, as interest rates in Brazil were falling from their historically exorbitant levels.

Behind XP's success is the overcoming tale of its CEO and founder, Guilherme Benchimol. Interestingly, Pactual had a major influence on Benchimol's career choice. Son of a renowned Rio de Janeiro doctor, Guilherme was enchanted with the financial market when he saw a lecture by Luiz Cezar Fernandes and decided to study economics, going against his father who expected him to follow his steps as a doctor.

However, Benchimol's career did not have the meteoric start that marked the debut of so many Pactual partners. He was not a brilliant student and was rejected by numerous investment banks, including Pactual. After being fired from the investment portal Investshop, Benchimol

¹⁴ http://g1.globo.com/economia/negocios/noticia/2016/01/btg-pactual-anuncia-demissao-de-305-empregados-no-brasil2801.html



moved to Porto Alegre in search of a fresh start. There he founded XP in 2001, a modest RIA shop, channeled for individuals looking to invest in the stock exchange.¹⁵

After some tough years, XP found its way by inspiring itself in Charles Schwab. Instead of being essentially a stockbroker, from 2010 on XP positioned itself as a financial shopping center for Brazilian retail investors. As Charles Schwab did in the USA during the 1970s, Benchimol made the point that big banks served poorly and charged abusive fees to Brazilian retail investors. Guilherme was not alone on this. A legion of dedicated registered investment advisors echoed his mantra to their clients, getting more and more acceptance from investors.

XP's market cap is currently around R\$ 125 billion (roughly 10% more than Banco do Brasil's) and is expected to post R\$2 billion of net earnings in 2020. The company has more than 2.5 million customers, whose investments in XP platform exceed R\$ 500 billion¹⁶. In addition to its enormous strength in retail, XP is increasingly competing against the investment banks in other areas, becoming an important player in DCM and ECM offerings (such as debentures, IPOs, REITs, etc) and leveraging off on its ability to distribute these offerings to its vast client network.

BTG Pactual had not been watching passively XP's rise and the 1990s internal debate over entering or not the retail segment was never buried. The distribution of financial assets to individuals has changed dramatically in recent decades. Street branches are dispensable in our increasingly digital world, low interest rates make investors prone to leave the retail banks in search of new alternatives for their savings and the massive presence of RIAs created the possibility of outsourcing much of the sales force. As the facts changed, BTG Pactual changed its mind and, starting in 2014, launched "BTG Pactual digital".

Like XP, its digital platform also aims at being a supermarket of financial products and its offering diversity is similar. The initiative has the digital word in its name because it started serving the public directly through a 100% digital platform. However, over time, BTG has also started to attract a network of RIAs, many of them former managers of large retail banks, who bring with them a portfolio of clients and become part of an outsourced staff.

More recently, BTG Pactual announced partnerships with large wealth management companies (most of them former members of XP network) in a model in which the bank owns about half of the business and turns it into a broker dealer. By doing that, the firm can enjoy the higher commissions that brokers receive on issuances of shares, debentures, etc., while BTG Pactual's back-office takes care of the additional bureaucracy that comes with changing the legal figure.

¹⁵ Source: Book "Na Raça: Como Guilherme Benchimol Criou a Xp e Iniciou a Maior Revolução Do Mercado Financeiro Brasileiro". Author: Maria Luíza Filgueiras , 2019

¹⁶ Source: XP Inc Earnings Release from 3Q20



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BTG Pactual digital's numbers are not yet public. Currently, they are consolidated within the bank's wealth management unit. It is worth noting, however, that in the first nine months of 2020, the growth of assets in custody of BTG Pactual's Wealth is close to that of XP, 32% and 38% respectively. As its wealth management unit is already a mature business, BTG Pactual digital must be largely responsible for aggregate growth and is possibly evolving at higher rates than XP.¹⁷

However, the digital business is just one of the opportunities that the bank sees at this special juncture, which combines low interest rates and increased digitalization. Still on the retail business, BTG Pactual recently started operating as a digital commercial bank, offering current account and credit card services. Another vertical that has great potential is credit for small and medium-sized companies, an area in which BTG Pactual began operating through a straightforward platform for discounting receivables and, in a matter of one year, has already formed a credit portfolio of R\$ 6 billion.

Some of the more traditional areas of the bank are also being driven by this favorable low interest rate scenario. This is the case of the asset management arm, where AUM have been growing by 30% in the last twelve months. In the investment bank, a segment in which BTG Pactual is the country's leader, revenues in the 3Q20 hit a new record, the result of a large volume of IPOs and debt placements. As Brazil has just over 300 companies listed in the stock exchange versus more than 4,000 in the USA, we believe that there is an important avenue of growth in this segment.¹⁸

Another point that excites us in the investment banking unit has to do with the competitive environment. We believe that the current scenario favors BTG Pactual, since many of the foreign competitors have reduced their operations in the country due to the poor performance of the economy. At the same time, large banks are more focused on containing threats from fintechs to their retail operations.

On the other hand, the sales and trading area, which has been the bank's flagship since its foundation, should not keep pace with the growth of the rest of BTG Pactual. This division, which includes the result of the proprietary trading desk and the brokerage house, should also benefit from the increase in the financial sophistication among local investors, which results in stronger volumes at the broker dealer and in the product intermediation for its clients. However, the size of the bets on rates, FX and stocks at its proprietary desk is likely to be close to the ideal level already. Although the sales and trading division's lower growth partly slows

¹⁷ Source: XP Inc and BTG Pactual earnings release from 3Q20

¹⁸ Source: "Valor Economico" Newsletter and theglobaleconomy.com



BTG Pactual's earnings expansion in the coming years, it will help the bank become less dependent on this division, which has accounted for more than 1/3 of its total revenue.

BTG Pactual is currently worth roughly R\$ 85 billion and, according to our projection, it should generate around R\$ 5 billion in net profit in 2021. Its PE ratio for 2021 is 17x or about 1/3 of XP's multiple. Trading at reasonable multiples and having good growth prospects, we see BTG Pactual as the most interesting stock in the Brazilian financial sector universe.

Our stake in BTG Pactual is recent, as it was built during in 2020. However, we believe that we have a deep knowledge of the bank, mainly due to our historical links with it. Vinci Partners was created in 2009 by a group of partners from Pactual, including our CEO, Alessandro Horta, and our chairman, Gilberto Sayão, who occupied some of the most important positions at the bank. We are well aware of the bank's high performance culture and its ability to attract and train people.

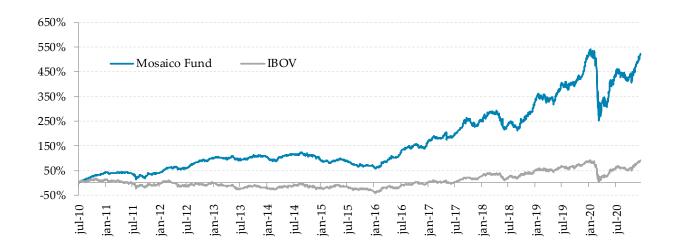
Probably the best representative of this culture is André Esteves himself. There is no doubt about André's enormous talent and determination. However, it was Pactual's pro-business environment and its search for excellence that allowed him to become a complete banker (trader, deal maker and a visionary entrepreneur). In the end, Esteves was right to follow his intuition and join Pactual; his best trade was to bet on meritocracy.

Best regards and Happy New Year,

Vinci Partners



in R\$	Jan-20	Feb/20	Mar/20	Apr/20	May/20	Jun/20	Jul/20	Aug/20	Sep/20	Oct/20	Nov/20	Dec/20
aico Fund	1,7%	-5,4%	-29,4%	6,5%	7,1%	9,4%	9,0%	-4,8%	-2,8%	-1,8%	13,0%	9,2%
oa	-1,6%	-8,4%	-28,3%	7,9%	8,6%	8,8%	8,3%	-3,4%	-4,8%	-0,7%	15,9%	9,3%
e inception in July 12	2th 2010											
n R\$	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	
Mosaico Fund	38,7%	-0,2%	43,2%	5,6%	-1,9%	-16,2%	44,9%	40,6%	14,8%	49,5%	3,5%	
bovespa	10,1%	-18,1%	7,4%	-15,5%	-2,9%	-13,3%	38,9%	26,9%	15,0%	31.6%	2,9%	





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