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PRESENTATION

Operator

Good afternoon, and welcome to Vinci Compass Second Quarter 2025 Results Conference Call. (Operator Instructions) As a reminder, this call will be recorded.

I would now like to turn the conference over to Anna Castro, Investor Relations Manager. Please go ahead, Anna.

Anna Castro - Vinci Partners Investments Ltd - Manager - Investor Relations

Thank you, and good evening, everyone. Joining us today are Alessandro Horta, Chief Executive Officer; Bruno Zaremba, President of Finance and Operations; and Sergio Passos, Chief Financial Officer. Earlier today, we issued a press release, slide presentation or financial statements for the quarter, which are available on our website at ir.vincicompass.com.

I'd like to remind you that today's call may include forward-looking statements, which are uncertain outside of the firm's control and may differ from actual results materially. We do not undertake any duty to update these statements. For a discussion of some of the risks that could affect results, please see the Risk Factors section of our 20-F. We will also refer to certain non-GAAP measures, and you'll find reconciliations in the release.

Also note that nothing on this call constitutes an offer to sell or solicitation of an offer to purchase an interest in any Vinci Compass fund. On results, Vinci Compass generated fee-related earnings of BRL65.2 million or BRL1.03 per share and adjusted distributable earnings of BRL75.8 million or BRL1.20 per share for the second quarter of 2025. We declared a quarterly dividend of BRL0.15 on the dollar per common share payable on September 9 to shareholders of record as of August 25.

Alessandro Horta - Vinci Partners Investments Ltd - Chief Executive Officer

Thank you, Anna. Good evening and thank you all for joining our call. We appreciate you joining us. We are pleased to report another strong quarter for Vinci Compass marked by solid financial results, continued fundraising momentum and the acceleration of key strategic initiatives across our platform.

I'll let Bruno and Sergio dive into more details in our results for the quarter, but I wanted to take the time to summarize what I believe are the three key highlights for us and what they mean for our platform. When we take our distributable earnings, we can compose it by looking into three different components of value: FRE, PRE and investment income.

The second quarter posted healthy numbers for our FRE as we continue to bring in additional AUM from a diverse set of different strategies, infrastructure, credit and global IP&S being the highlights this time. Vinci Compass continues to grow by raising capital from an extremely diverse set of products, geographies and investor channels.

Shifting to PRE and investment income of our results, I'm very pleased to give attention to this because this is paramount to the value of the investments on our balance sheet and the future earnings power this brings to Vinci Compass. This quarter, in addition to the performance recognized across liquid funds in equities and credit, we had the realization of performance fees coming from one of our infra funds.

FIP Infra Transmissao is a fund that was formed back in 2017 before our IPO, in which we made a small commitment from the company's balance sheet at the time and has been collecting its realized returns since 2022. This is the same capital deployment that we have been conducting at a larger scale since our IPO through commitments to proprietary funds using our balance sheet capital.

First, we commit this capital to one of our funds, let's say, in private equity, infra credit, real estate strategies. We have a short-term impact on our FRE numbers with the fundraising leverage by this anchor commitment to the fund, which helped the product gain traction in the fundraising process and earn management fees for the company.

Then we have a medium-term negative impact on our cash earnings as this cash, which was deployed into the fund, is not earning short-term financial income anymore because it has been deployed into this private market fund. Initially, the appreciation of the closed-end fund commitment is only seen in our net income results, not our distributable earnings.

Finally, after the fund matures and returns capital to its LPs, we reap these benefits with capital return and capital gains and obviously, the performance fee recognized by the fund impacting our PRE. The consolidated impact of such events in FIP Infra this quarter to our cash earnings was BRL50 million pretax. This quarter showed what this effect potentially means for our future as we realized gains from a small commitment made in the past that was not that significant when we compare it to our cash allocation after the IPO.

We believe this is a crucial part of the value of the business, and we hope this quarter helps enlightening on this aspect in potential future results. This quarter brought significant accomplishments, and we are excited to share that we successfully executed a series of strategic exits across multiple verticals clear evidence of our ability to capture value and deliver results in diverse market conditions.

A key highlight was the aforementioned full divestment of the remaining asset in FIP Transmissao within our real asset segment, which was concluded in May. These milestones marked the end of a cycle that began in 2017 with the inception of this fund and set the stage for its liquidation, expected to occur 24 months after the closing date pending release of escrow reserves. Still in real assets, we completed the full sale of another asset held by one of our infrastructure funds, the perpetual vehicle VIGT.

The transaction was concluded at a value above the appraisal report and contributed directly to the deleveraging of the holding structure. In the private equity segment, we also announced the full exit of Camarada Camarao, a casual dining business held within our Nordeste III fund. This marks the fourth exit out of six investments in this vehicle, further reinforcing our strong track record of realizations within our private equity franchise.

On the deployment front, we remain highly active. In July, we closed the third investment of VCP IV AGV, a company in the Temperature Control Logistics segment, bringing the fund's capital deployment to approximately 40% of total commitments. The team continues to be highly active in origination with numerous opportunities currently under evaluation. Our focus remains on sectors such as financial services, business services, technology, media and communications, agribusiness, education, and healthcare.

In parallel, we are closely monitoring opportunities in financially distressed companies, multinational carve-outs, and private equity portfolio businesses, areas where we see meaningful potential for attractive entry points and valuations. Valuations across public and private markets remain compelling, and market multiples have remained suppressed, especially in Brazil, with the Ibovespa currently trading at just 8 times forward earnings, well below historical averages.

This valuation backdrop becomes even more interesting when considered alongside recent macro developments such as the improving outlook in Brazil. The country is currently at the peak of its real interest rate cycle with clear signs of an inflection. One-year real interest rates reached historically high levels of 11%, but have already begun to decline, driven by easing inflation and gradual improvements in fiscal fundamentals.

While cuts to the SELIC rate are expected toward the end of 2025, the yield curve has already begun to price lower rates. For instance, 10-year rates have fallen from above 15% to the low 14% range. The local equity market remains under-allocated, with equities representing just 8% of domestic portfolios, well below historical averages, suggesting ample room for reallocation as rate cuts take hold.

We are also seeing a similar setup layout more broadly across Latin America. The recent weakening of the US dollar has contributed to a more dovish tone from central banks in several countries in our region. In Chile and Colombia, policymakers are actively discussing or initiating interest rate cuts. In Mexico, the Central Bank has continued to lower rates with no indication of a pause at this point.

The combination of improving inflation expectations and easing policy is helping to strengthen the macro landscape across Latin America, creating a favorable backdrop for alternative investments. A strong reflection of this environment is the performance of one of our LatAm equity funds, which delivered consistent results in the first half of the year, ranking in the top quartile.

This is particularly meaningful as the fund represents a core fundraising priority for the Equities team over the coming years, given both the size of the opportunity and our current market share, which remains below what we consider our fair share. This is especially true among Chilean pension funds, which have historically been key investors in this strategy.

Adding to this momentum, there is growing optimism around pro-market candidates gaining traction ahead of upcoming elections across South America, further reinforcing the outlook for equity markets in the region. We believe our Credit segment is also well-positioned to keep benefiting from this environment across both local and regional strategies.

This quarter alone, we posted over BRL2 billion in new capital formation and AUM appreciation within this segment. By capital formation, we are referring to a combination of net inflows and capital subscriptions, with contributions coming from a range of sub-strategies and geographies, reinforcing the strength and scalability of the platform we are building. Still on the fundraising front, we are delighted to announce the final closing of our Infrastructure Climate Change fund, the ICC, raising close to BRL2 billion.

The fund was launched after winning a public call for proposals by the Brazilian Development Bank, BNDES, with the remaining capital being raised primarily from reputable international institutions such as development banks and sovereign wealth funds from both Europe and Asia. Our deployment plan is to expand investments in the segment to reach 100 megawatts of distributed solar generation.

We also intend to invest in larger-scale renewable energy projects and are currently in discussion about a potential utility-scale solar initiative. Other sectors currently on the fund's radar include energy storage, energy transmission, energy efficiency, 5G tower infrastructure, and data centers powered by renewable energy sources.

On the corporate side, we recently inaugurated our new office in Sao Paulo, allowing Vinci Compass 133 team members based in the city to effectively be part of a virtual second headquarters office for the firm. This move follows the acquisitions of SPS, MAV, Lacan, and the combination with Compass Brazilian office, all based in Sao Paulo over the past few years.

By fully integrating our teams and aligning daily operations, we can maximize collaboration and deliver the value these combinations were designed to create for our clients and stakeholders. We invite our clients to visit the new space when convenient. Before closing, I'd like to extend a warm invitation to our Investor Day, which we will host on October 7, at the NASDAQ headquarters in New York.

This will be a great opportunity for us, including the heads of our strategies, to share a deeper look at our business units, long-term positioning, and key performance expectations for Vinci Compass going forward. We look forward to seeing you there. To wrap up, we believe we are exceptionally well-positioned to navigate today's dynamic environment on behalf of our investors. Our portfolios remain in excellent shape, and we continue to execute with discipline and focus across all fronts.

Thank you again for joining our call. With that, I'll turn it over to Bruno.

Bruno Zaremba - *Vinci Partners Investments Ltd - President - Finance & Operations*

Thank you, Alessandro, and good evening, everyone. We are proud to share that we had BRL12 billion in capital formation appreciation during this quarter across different strategies, underscoring the breadth of our multi-strategy approach and the scalability of our distribution capabilities. Let's start with our Global IP&S business. As we had predicted in our first quarter call, outflows seen in the previous quarter were a passing trend and in the second quarter turned into positive and strong inflows totaling BRL2.3 billion.

The main drivers were TPD Liquid and Alternative strategies, with a notable contribution from Asian liquid managers funds, which attracted significant inflows from investors in Chile, Peru, and Colombia. We are also seeing growing interest in semi-liquid TPD funds, particularly among retail investors through the intermediaries channel. These funds are increasingly viewed as transformative and as an excellent entry point into alternative investments.

They offer lower entry barriers, operational simplicity by eliminating repeated capital calls, and a balanced liquidity profile, sitting between open-ended daily liquidity and long-term lockups. We expect this trend to continue gaining traction in the upcoming quarters in the region. In addition to semi-liquid, we believe private debt and middle market funds will remain highly attractive to more sophisticated investors.

Within TPD alternative, demand remains robust, and we believe this segment will deliver a strong year. Moving on to liquid credits, we saw continued strength in both our LatAm and Brazilian strategies during the quarter. Our LatAm strategy surpassed BRL7.2 billion in AUM, supported by strong inflows from institutional clients in Chile and Europe. We've been highlighting since our last call the growing client interest in geographically diversified credit portfolios.

This trend has accelerated as investors increasingly recognize the strategic appeal of Latin America, particularly given the region's insulation from the geopolitical conflict unfolding in Europe, Asia, and The Middle East. In this global environment, marked by elevated uncertainty and volatility, Latin America corporates stand out. We're seeing robust fundamentals across the region, with companies exhibiting low leverage, strong liquidity, and limited refinancing risk.

These balance sheet dynamics, especially in strategically important sectors, are creating a compelling pipeline of investment opportunities for our team. In Brazil, our open-ended credit funds continue to gain traction with retail investors, particularly through intermediaries and private pension plans, across both liquid public debt and private credit strategies.

On the closed-end front, we received new commitments across multiple strategies, including confirming unstructured credit vehicles, PEPCO II within diversified private credit, MAV III in agribusiness, and Credit Infra in infrastructure credits. As anticipated, SPS IV did not receive additional commitments this quarter due to the timing of the closings. However, we are already seeing very encouraging feedback from both global and Brazilian investors for second half of 2025.

This stronger engagement is underpinned by the growing appeal of alternative liquidity solutions, such as the monetization of contingent legal assets, which has been translated into increased use flow in the pipeline. At the same time, the overall risk environment has intensified, leading us to further elevate our due diligence standards.

We are prioritizing transactions with stronger collateral structures, lower loan-to-value ratios, and exposure to more resilient sectors and business models. For the second half of the year, we expect continued growth from our credit segments. As we witnessed in the first half, we plan to launch a LatAm Fixed Maturity Corporate Debt Fund in Peru, the first of its kind, in partnership with a local multifamily office.

In addition, we will introduce the Vinci Special Opportunities Fund, managed by our hedge fund team, with most of the capital coming from the recycling of Argentina fund, which delivered an impressive track record and generated significant value to clients. More than 70% of the AUM in this new vehicle is expected to come from re-ups by clients of the Argentina funds.

We're also preparing to launch a global USD conservative fund in Chile targeting high net worth clients. Shifting to private equity, as many of you know, our VIR team is preparing to launch the fifth vintage of our flagship strategy in second half of 2025. We're encouraged by the early feedback from existing LPs, many of whom have already expressed interest in re-upping their commitments.

In addition, as Alessandro mentioned earlier, Nordeste III, our VIR Family Fund announced the full exit of Camarada. Maintaining an active pace of realizations both for Nordeste III and VIR IV remains a priority for 2025. In our VCP strategy, the aggregate performance of our portfolio companies delivered over 20% year-over-year revenue growth and over 30% year-over-year EBITDA growth in first quarter of 2025.

A standout highlight was Agibank from Fund III, which achieved over BRL350 million in net income, representing over 60% year-on-year increase and setting a new quarterly record. These results underscore the strength of our disciplined investment process in generating sustainable and transformative growth at portfolio companies.

As expected and discussed in our prior earnings call, we're seeing recovery of the gross accrued performance fees in our offshore vehicles, which had experienced a temporary negative impact from the depreciation of the Brazilian real. In the real asset segment, on top of the final closing of the ICC within infrastructure, we received capital subscriptions both in Lacan IV within Forestry and [in our] Opportunistic Real Estate Funds.

The primary focus for our Forestry vintage remains in international markets, [DFIs] in particular, of which we expect most of the commitments to come in the second half of the year. We also established a new Forestry sub-strategy in addition to Lacan IV, designed to capitalize on wood supply-demand imbalances. This vehicle targets Brazilian multi- and single-family offices, and pension funds through a tax-exempt FIAGRO structure.

To support our extensive fundraising pipeline, and in line with the DNA of Vinci Compass, we continue to strengthen relationships through our proprietary LP distribution channel. In June, we hosted the Vinci Compass Alternatives Week, bringing a delegation of single-family offices from Brazil, Colombia, Mexico, Peru, and The Dominican Republic to New York, for a curated agenda of meetings with leading alternative asset managers and technology firms.

The program aimed to provide insights into global investment trends and explore opportunities across private equity, credit, real assets infrastructure, and secondaries. The trip fostered meaningful dialogue between Latin American investors and sophisticated global asset managers, offering valuable perspectives on navigating global markets and effectively allocating capital across alternative strategies.

Discussions focused on portfolio construction, diversification, and identifying long-term opportunities in an increasingly complex and dynamic environment. Finally, I would like to briefly update you on our recent operational advances. As Alessandro mentioned, we recently inaugurated our new office in Sao Paulo, now fully operational and providing enhanced technology to our teams.

We also implemented cloud backup solutions for offices with local server infrastructure, such as a few that were brought in through the Compass combination, improving security and reducing operational risk. In addition, we completed the identification of our combined company Bloomberg accounts under a single contract, enabling better management and cost efficiencies.

These are just some small examples of what has been done across finance, operations, and IT, and initiatives like these are expected to generate positive margin impact over the next 12 to 18 months. There are several such initiatives ongoing, and we will continue to update you as they take shape.

Our original rich platform committed to technological evolution positions us to grow with discipline and lead in an increasingly dynamic and expansive market landscape. As we look to the remainder of 2025, we remain focused on delivering high-quality investment outcomes for our clients while reinforcing our role as a premier partner for alternative investments and global solutions in Latin America.

As discussed so far, the level of product and solutions diversification available to our clients is second to none as we can provide capital allocation opportunities in Latin American countries in regional mandates and present curated global solutions, be it non-discretionary or on a non-discretionary basis. With this breadth of solutions available to our clients, we believe Vinci Compass to be the partner of choice in the region.

With that, I'll turn it over to Sergio to walk us through the financial results.

Sergio Passos - *Vinci Partners Investments Ltd - Chief Financial Officer, Chief Operating Officer*

Thank you, Bruno. Let me start with AUM and the impact of FX variation. We ended the second quarter with BRL304 billion. As Bruno mentioned, we are very pleased with the BRL8 billion in portfolio appreciation delivered by our strategies, along with more than BRL3.5 billion in capital formation. However, because the Global IP&S segment is almost entirely priced in US dollar, the 5% appreciation of the Brazilian real against the US dollar during the quarter created a currency headwind to our real AUM figure.

This impact was partially mitigated by the fact that our other strategies are denominated in Brazilian reals, helping to smooth the overall effect in our AUM [hold] forward to a 4% FX rate variation. Even so, it generated approximately BRL12 billion in negative variation, which offset the appreciation and capital formation achieved during the period.

When we look into our AUM in US dollar, we ended the first quarter with \$53 billion, expanding to \$56 billion at the end of the first half of 2025. Turning now to fee-related revenues, which totaled BRL233 million in the quarter, up 85% year over year. This growth reflects our strong strategic inorganic growth and organic momentum with the final closing of VICC and positive inflows in the quarter across credit and Global IP&S.

Advisory fees totaled BRL26 million, comprising upfront fees charged for third-party distribution alternative commitments in the Global IP&S as well as fees from our Corporate Advisory business. The Corporate Advisory segment delivered revenues in line with our expectations, posting a more normalized quarter with over BRL80 million in advertising revenues as we had anticipated in prior communications.

Moving from the top line to expense, our total fee-related expenses were broadly in line with the prior quarter, which already reflect a full period including Compass. For a more meaningful comparison of our fee-related earnings, we excluded net catch-up fees. In second quarter of 2024, these fees were more elevated due to the fundraiser cycle of VCP IV.

Excluding them from both quarters, FRE grew 25% year-over-year on a nominal basis. For the second half of the year, while we expect catch-up fees from SPS IV as new commitments are signed, we do not anticipate them to be as significant as those in second half of 2024, which reflects two years of charge since the inception of VCP IV.

Turning now to our performance-related earnings, our [PRI] recorded a 50% increase on a year-over-year basis with net performance fees recognized across credit, equities, Global IP&S, and real assets. Within real assets, the exit of the FIP Transmissao asset generated realized performance fees in the quarter. However, there was no PRE impact since those fees had already been booked as unrealized in prior periods in accordance with accounting standards.

On the other hand, our distributable earnings did benefit from the transactions. For context, as noted in the presentation, BRL1.7 million of fee premium from unrealized performance fees remain on the balance sheet at quarter-end, tied to the escrow release expected over the next 24 months.

Below the line, realized GP investment and financial income totaled BRL35 million, a 49% increase year-over-year driven by capital return from our proprietary commitments in FIP Transmissao and Nordeste III and also solid results from our liquid portfolio. Let me take a moment to remind you that due to our GP commitments and the nature of the business, the exceptional performance of our funds creates value in three ways.

First, fee-related earnings driven by leveraging the capital raise. Second, through carry recognized upon realization of performance fees. And finally, capital gains at the GP investment level, which flows through financial income. Finally, putting it all together, adjusted distributable earnings totaled BRL76 million or BRL1.20 per share, representing a 30% increase year-over-year on a nominal basis and 9% growth on a per-share basis.

We are very pleased to be delivering what we believe reflects our true value proposition, ensuring that every marginal dollar of free cash flow generates the maximum possible long-term earnings per share. We remain focused on disciplined growth, margin expansion over time, and prudent

capital allocation. The first half of 2025 delivered solid progress despite FX headwinds, and with a strong fundraise visibility and execution across strategies, we are well-positioned for continued growth in the second half of the year.

With that, I would like to close our remarks and open the call for questions. Once again, I would like to thank you for joining our call. Please, operator, you may proceed with the questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Guilherme Grespan, J.P. Morgan.

Guilherme Grespan - J.P. Morgan CCVM SA - Analyst

Congratulations on the results. Two questions on my side. The first one is related to fundraising, strong numbers this quarter. I tried to adjust here for the upfront TPD in my math was even stronger adjusting for that. But my question is more looking towards second half. What level do you think it's reasonable to assume in terms of net inflow if we can continue to see those levels of net inflow into the second half?

Basically, if you can remind us well, I think you have some money -- relevant money to be deployed from VCP IV, from VICC. If you have a rough number of how much AUM you still have to be deployed into fee-earned AUM? And then my second question is related to GP commitments and financial income. You put some light on this discussion. When I do my math, you have a little bit more than BRL1 billion in gross cash.

If you apply SELIC, you were supposed to be generating, I think, even more than you printed this quarter, which was already strong. So my question, how should we think about forecasting this line? Is there kind of a timeline or a trajectory you think we can forecast GP income and financial results? Because as you said, there is a J curve but for us, it's hard to know when those investments are going to mature. So if you can help us just how to think about this line going forward.

Bruno Zaremba - Vinci Partners Investments Ltd - President - Finance & Operations

Okay. Guilherme, this is Bruno. Thanks for the questions. I'm going to give a first shot here and Alessandro and Sergio can complement me. So the financial income, I think Sergio mentioned that in his remarks, we are going to see a gradual reduction of the financial income line over time. There might be a handoff effect from the liquid funds to the closed-end funds, right?

So as we invest the rest of the liquid portfolio in closed-end funds, there's likely going to be a transition -- temporary transition from financial income to the net income line of the income statement. So from DE to the net income line. And once we start realizing or returning capital from the closed-end funds, this will come back to the distributable earnings number like we did have the impact of CPM for this quarter.

So it is -- let's say, it's not very easy dynamic. I understand because we're not in a steady rate yet because we're still deploying the capital from the balance sheet to the closed-end funds from the liquid funds to the closed-end funds. We are going to touch on this with a lot of detail in the Investor Day on October 7 that Alessandro invited everyone to participate.

I would say, at least in the short-term, until we get there and explain this in more detail, how you should think about this is the following. We expect over the next year to have -- I think the number is around BRL200 million to BRL300 million of additional commitments flowing from the liquid funds into the closed-end funds and going to the net income line, let's say.

Today, I think the liquid portfolio is about BRL600 million or a little bit less than that, BRL550 million, if I'm not mistaken. So this should drop as we continue to invest to the closed-end side. And then once these funds start returning capital, which should start happening in a more significant way, probably starting '27, we should see the impact that we saw from FIP Infra this quarter.

So it's a flow-through from DE to income statements and then back to DE once the funds start realizing and returning capital to us. But as I said, we should go into more detail in this accounting during the Investor Day to give you more detail. In the second quarter, specifically, the impact that we had was that the liquid portfolio had a very strong result.

So we had significantly above CDI return in the second quarter in the liquids side of the portfolio. And on top of that, we had strong closed-end performance, not only from the REITs that continue to pay us dividends, but also from the realization of the FIP Infra fund. So that's the explanation of the second quarter specifically.

Going back to the first question, starting the year, we had the view that we could grow AUM this year by -- on an FX adjusted basis by double digits. So that would mean a number, let's say, around BRL30 billion between inflows and appreciation. The first quarter was not as strong. We had a negative TPD Liquid, so it put us a little bit behind on that goal.

But the second quarter, as we had expected, was already better. And the third quarter started strong as well. So looking at the numbers from July, we see that the flows continue to be good. So it's tough to say if we're going to be able to recover 100% of what we were expecting in the beginning of the year, given the -- mainly the backstep that we had in the first quarter.

But the second quarter and the start of the third quarter are looking very good. We still have several funds open. So we have a lot of strategies and credit in Brazil, SPS, other strategies. We have Lacan IV open. We have obviously all of our Commingled Funds that are open, pension plans, the TPD products.

We still continue to see a good flow and calendar for TPD alternatives in the second half. So we should see good news coming from that side as well. So it continues to be constructive. Hopefully, we can come back to that double-digit growth on an FX-adjusted basis but have in mind that the first quarter was a little bit slower than we were expecting initially.

Alessandro Horta - *Vinci Partners Investments Ltd - Chief Executive Officer*

And Guilherme, this is Alessandro. Just to complement what Bruno said to your first question on fundraising. Basically, two verticals, we are very constructive in terms of traction, credit in general terms, both more liquid credit up to SPS, that's still in fundraising mode.

And the TPD, of course, with the recovery of the overall sentiment of the international market and the S&P going up and et cetera, we are seeing a more constructive fundraising second half for these two main strategies here at Vinci Compass.

Operator

Lindsey Shema, Goldman Sachs.

Lindsey Shema - *Goldman Sachs Salt Lake City - Analyst*

We saw the FRE margin fall in this quarter. So my main question here is just at what point should we start to see the FRE margin expand to that low 30s percent run rate that you had mentioned previously? Do you expect that by the end of this year? And then what kind of levers do you expect to pull? Is it all going to be the cost control initiatives that you've recently enacted?

And how much of an impact should we see from those? And then my second question is just a quick follow-up on Guilherme's question. I was wondering when it comes to the PRE realizations that you were mentioning, I know it's kind of hard to have visibility into that. But how should we think about the path of those going into 2027? Is it not going to happen until 2027 or do you still expect some realizations up until then?

Bruno Zaremba - *Vinci Partners Investments Ltd - President - Finance & Operations*

Okay. Lindsey, thank you for the questions. This is Bruno again. I'm going to cover -- try to cover both of them. So on the margin, the way that we are seeing this at this point is the following. We have -- as I mentioned, we had a tougher first quarter from a flow standpoint than what we expected. I think second quarter, things got back in track.

Clearly, obviously, revenue is something that helps us and is one of the drivers of the long-term margin expansion of the company. However, we are sitting at a place today that I feel that we have some sort of comfort level already that we should be able to migrate to that low 30s rate by, I would say, probably the second or third quarter of next year with the initiatives that we have that are ongoing from a bottom-up standpoint. So without taking into account an acceleration or continued acceleration of the AUM growth. There are several drivers behind that.

I think a lot of things on the IT side, a lot of things on corporate restructuring, a lot of things regarding projects and programs that we are optimizing as a combined company, so mostly on the system side. There are certain expenses that are flowing through our FRE today that are not recurring in nature, but we chose to not adjust the FRE. So we are treating them as recurring, but part of that is not going to recur next year.

I'll give you an example of that. For instance, there is a retention plan that was signed alongside with the Compass transaction for which we are building provisions every month that ends in the fourth quarter of this year, right? And this is something that's flowing through our income statement, but it's not recurring because it has time to -- a definite time to end, right?

So these things are going to start cycling, not only these non-recurrings that we're having, but also the benefits of integrating the two companies. And the outlook that we have for this full benefit is something between 2 and 3 points of margin on an annualized basis, right, which we expect to be fully ongoing by the third quarter -- at some point in the third quarter of 2026.

And obviously, on top of that, we are working hard to leverage the business and the verticals and the fundraising because at the end of the day, fundraising is what's going to allow us to really drive this margin to much higher places than this initial benefit from the combination on the productivity side, on the cost side on a bottom-up standpoint. In regards to PRE, I think there are a couple of factors there.

Just going back to Guilherme's question for a second. One thing is the PRE. So PRE in our business, it has two components, right? So we have a lot of our liquid funds that pay PRE. So we have credit funds, we have investment solution funds. We have equity funds that with market improvement, and we had some of that already in the second quarter, we should fully expect them to continue to generate PRE to us.

So when we closed the second quarter numbers, just to give an example, our equity funds were very close or already around or above the high watermark. So it meant that we were in a position to generate more meaningful PRE. The market was at the highest level of the last several years. And now it's actually going back to that level. But at that time, it was at the highest level.

So we are in a position to start generating more meaningful PRE in the equity side. And the credit side, with the growth of the Credit business, continued growth, and as Alessandro mentioned, one of the areas that we expect to continue to grow. This is an area that generates more recurring PRE for us. It's more, let's say, visible, more recurring in nature. It's not as volatile as the equities PRE.

So it's something that should also help in the short- to medium-term to continue to generate this liquid side and allocation side PRE to us. And then you have the PRE from the closed-end funds, right? So like the one that we realized this quarter from FIP Infra, right? So in this side, and it goes again to Guilherme's question, this is the investments that we are starting to fund from the balance sheet with the capital from the IPO.

We have funded so far, I think the number is around BRL700 million at this point in time. There's still another BRL600 million to BRL700 million to fund. And these funds, they have a different characteristic because given that these are most of them closed-end funds, and we're talking about private equity funds, we're talking about infra funds they have the typical J-curve effect.

So in the first few years, we don't see a lot of contribution from the performance of these funds because they still don't have enough assets inside them to generate a return in excess of the cost. And we're now starting to get out of these J-curves in the VCP IV fund, for instance, we expect that to happen in 2026 and also for VICC. SPS has a quicker J curve, so that should also come out of the J-curve in 2026 as well.

So in the first part of the investment cycle of these funds, what we are going to see if everything goes right, is a bigger impact to our net income. So as these funds start to appreciate the shares that we own on these funds as an LP, they're going to start impacting our net income. And we have one slide in the investor presentation where we show the accumulated or the accrued gain that we have on these funds, right?

So that's the first part, right, of the capital creation on these funds, right? We should start seeing that impact net income. The net income impact is going to start happening probably next year. We expect it to be more meaningful starting already in '26. For this net income to become distributable earnings, the funds need to start distributing capital to LPs.

So this is the next step. Once we have VCP IV, SPS IV, VICC and other commitments that we have made, these are probably at this point in time the biggest ones that we have. When they start to realize and return capital, we're going to start recognizing that as distributable earnings as an LP, right? That fund is going to flow back into our liquid portfolio.

We're going to recognize the gain as a distributable earnings gain and recycle that money either short-term in a liquid fund and medium-, long-term into another closed-end fund, right? And the third part of the equation is the PRE. The PRE should be the last part, right? So once the fund return all the capital adjusted by the hurdle because our funds are all of them are European waterfall funds.

So we return the initial capital, we return the hurdle. And then at that point in time, we start charging PRE, right? So this is going to be the last part of the cycle. So in that last part of the cycle, we will have the impact like we did with [CPM]. We're going to charge PRE and have the impact from the GP commitment at the same time. So the full cycle, right, we're going to have initially a net income impact as these funds appreciate, but don't generate cash earnings for us.

Then we have a distributable earnings impact when the funds start realizing and returning capital to LPs, and we're going to start having the gain on this initial flow of capital return. And finally, the combined impact of PRE and the financial income when we get in carry mode in these funds and those two things start happening at the same time. In terms of timing, for the third part of the equation to start happening, I would expect that to happen probably starting '28.

So we're going to start having PRE and financial income probably together in '28. And then probably around '27, we should start seeing some distributable earnings, I would guess. And then certainly, if everything goes right in '26, we should start seeing these funds impacting net income as they appreciate.

And just to wrap up, to go back to a question that Grespan made that we did not answer, unactivated capital in our AUM, we don't have a lot of that in our AUM. So today, most of our funds, they charge management fees on a percentage of committed capital. There are some small exceptions in the case of SPS, we charge the commitments.

But when we allocate the capital, there is a step-up in rates. So in the case of SPS IV, we're going to have an impact. But if you think about the overall size of the company, probably it's not going to be that material.

And then there are some credit funds on the closed-end side, where we have mainly high grades, where we have capital commitments that do not charge management fees. And once we allocate, they start charging. But again, if you think about the overall size of the company, it's not a relevant impact that would move the needle for us. So those are the points I would like to make.

Operator

Ricardo Buchpiguel, BTG.

Ricardo Buchpiguel - BTG Pactual - Analyst

Only one question here. During the quarter, we saw that management fees stood flat quarter-over-quarter, pretty much in line with the AUM, which was also flat. And when we look at the bridge of the AUM expansion, the main drag was related to the FX variation. So my question, is it fair to say that the flattish management fees also related to this FX change? And if so, do you have an estimate of how much the FRE or management fee would have grown if it wasn't for this effect?

Bruno Zaremba - Vinci Partners Investments Ltd - President - Finance & Operations

Okay. Ricardo, this is Bruno. Yes, when we look at the quarter-over-quarter revenue number, the main explanation is the FX, right? So we lost mainly on the revenue side, I would say, in the IP&S, right, where we have the impact from TPD. So in that vertical, we did suffer a drop in the FX, and it's a very big vertical, right? So it's a vertical that does have a significant impact to us.

I would say, I mean, if the FX stayed flat in the quarter, probably we would have grown revenues, I would say, in the -- probably close to like low to mid-single digits would be the growth. And FRE would be able to dilute some of the costs, a little bit of the cost. So probably we will have grown FRE a little bit more, I don't know, than we did, I would say, probably about 5 percentage points to 6 percentage points more if we had a constant FX.

But at the end of the day, Ricardo, one thing that is important to mention that although the impact on the revenue was negative, right, from the FX. And likely, there was a small impact as well on the margin. We did generate more values to shareholders in dollars when you look at the DE, right?

So there is an impact on our reals balance sheet and income statement. But from a constant currency or dollar-based DE standpoint per share, the regional currencies being stronger, I would say, mostly reals, the reals being stronger for the business as a whole, looking at the bottom line, is better, right? We have better dollar per share profitability.

We have more potential future carry realization because we have international LPs in the funds, and they have dollar-based carry hurdles. So if the reals appreciate, that means more future carry for the business. So the local currency appreciating for us overall is good, although it might have a top line and an FRE impact on a bottom-line level, it's positive for us.

Operator

Pedro Leduc, Itau BBA.

Pedro Leduc - Itau Corretora de Valores S.A. - Analyst

Two quick ones, please. On credit, again, you mentioned some optimism there. We saw some nice inflows. Could you elaborate a little bit how this portfolio that we're seeing today is spread out to regions, if it's new products or new geographies that you're getting new business in? And if that's a pace indeed that we should see accelerating. You still got little market share in this big market. And then second question, you briefly mentioned Argentina. Just trying to get a little more detail on what opportunities you're seeing there and how you're seeing it playing out for the next few quarters?

Alessandro Horta - *Vinci Partners Investments Ltd - Chief Executive Officer*

Okay. Pedro, that's Alessandro. Thank you for the question. Talking a little bit more detail about credit, you can notice that we reached a little bit over 10% of our total AUM in credit because this is one of the growth avenues that we are seeing. We have been able to spot this growth opportunity and execute it in several different fronts, okay, and in different geographies.

We are growing our credit business in LatAm as a whole since we have in these vertical products that cover the overall region, okay, with stable currency. So we have dollar-denominated funds in credit with LatAm mandates. This is growing. And we are having very healthy flows in this specific strategy inside credit.

As you know, we have been able also to raise money in Brazil with SPS, with MAV and with our more liquid credit funds. We also have been able to see interest in private credit in Colombia and Peru. We are seeing possibilities of fundraising moving forward in Mexico and also in Chile, Mexico, a little bit shorter horizon than Chile.

And finally, for your question in Argentina, the majority of our asset management business in Argentina locally is related to credit and fixed income. And of course, with the recovery of the confidence and everything that we know in the macroeconomic side, of course, we have soon legislative elections there.

We are positive that we can see more inflows within also this geography. But summarizing to your question, credit is really very widespread in terms of geography. So almost all the countries that we are exposed, we are -- with some initiatives are happening right now or with a very short-term horizon. And also, as I said, we have a regional strategy for credit that has been very successful in fundraising.

Operator

(Operator Instructions) I would like to turn the floor back to Mr. Alessandro Horta for the closing remarks. Please, Mr. Horta, you can proceed.

Alessandro Horta - *Vinci Partners Investments Ltd - Chief Executive Officer*

Thank you all again for your support and your interest in our developments. As we said during this call, we are very, very happy with what we have been seeing of the dynamics within the firm. We also have been very happy with the fruitful integration between all of the companies that we have been merging within our combined Vinci Compass partnership.

And we expect to very soon provide very -- even better news to you since we are seeing the strategy evolving moving forward and the market becoming a little bit more benign for our fundraising and investment activities. So thank you very much, and have a good evening.

Operator

This does conclude today's presentation. We thank you all for participation and wish you a very good evening.

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