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## PRESENTATION

**Operator**

Good afternoon, and welcome to the Vinci Partners Second Quarter 2023 Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. As a reminder, this call will be recorded. I would now like to turn the conference over to Anna Castro, Investor Relations Manager.Â Please go ahead, Anna.Â

Voxtab_VINP_1847758638Â Thank you, and good afternoon, everyone. Joining today areÂ AlessandroÂ Horta, Chief Executive Officer; Bruno Zaremba, Private Equity Chairman and Head of Investor Relations; and Sergio Passos, Chief Financial Officer.Â

Earlier today, we issued a press release, slide presentation, and our financial statements for the quarter, which are available on our website at ir.vincipartners.com. I'd like to remind you that today's call may include forward-looking statements, which are uncertain and 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 factor section of our 20-F. We will also refer to certain non-GAAP measures, and you can find reconciliations in the release. Also note that nothing on this call constitutes enough for the sale or sensation of enough to purchase an interest in anyÂ Vinci PartnersÂ fund. With that, I'll turn the call over to Alison.

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**Alessandro Monteiro Morgado Horta** - *Vinci Partners Investments Ltd. - CEO & Director*

Thank you, Anna. Good afternoon, and thank you all for joining our call. We are very pleased to join you today as we announce results for the second quarter of 2023. Adjusted distributable earnings totalled BRL 70 million or EUR 1.30 per share, an increase of 18% in our cash earnings per share year-over-year.Â VinciÂ announced a quarter dividend of $0.20 on the dollar per common share. Over the last 12 months, we have distributed EUR 0.73 per share as dividends that at the current stock price level, represent a dividend yield close to 8%. Our fee-related earnings totaled BRL 51 million in the quarter or $0.94 per share, representing an increase of 11% year-over-year on a per-share basis, driven by the ongoing fundraising across our private market vehicles and a higher contribution from advisory fees this quarter.Â

AUM reached BRL 65 billion at the end of the second quarter, up 9% year-over-year. This quarter, we had an important contribution from AUM appreciation following the recovery in local markets, which pushed our public efforts and REIT strategies to rise by 20% in average. This is one of the few quarters since our IPO that we benefit in a more significant manner from this effect. Since 2021, we have struggled to see a relevant impact from market appreciation as we face challenging local markets, and our AUM growth has been anchored mainly in new capital subscriptions and inflows.Â

The strong results posted for AUM, FRE, and distributable earnings this quarter are once again a clear demonstration of the resilience of our platform. We have been discussed constantly in our calls our current focus in fundraising across our private market strategies and the impact these new capital commitments will have for our management fees. I'm very confident in the prospects for future quarters as we now have additional to the fundraising for our private markets, favorable tailwinds for other segments, such as our liquid strategies and our public market vehicles. We are now entering a much more constructive scenario forÂ VinciÂ to start seeing positive inflows into our liquid funds as local markets improve and the opportunity cost of a very high local interest rate lessons.Â

On top of that, our public market vehicles, with the recent appreciation, are trading at prices very close or above NAV, which put us back in a position to raise capital through primary issuance. This contribution can be very meaningful to our numbers. We have 8 perpetual capital AUM funds with sizable NAVs. Once we have surpassed NAV prices, our public market vehicle should go back to be one of the main driving forces for AUM growth, as we have seen from 2018 to 2021 when we grew AUM in this strategy by more than 5x or BRL 4 billion. This effect was a direct consequence of the market's expectations for the start of the easing cycle for interest rates, which officially began last week as the Brazilian Central Bank announced the first cut in interest rates since 2020 by 50 basis points and sent a clear indication for the easing process ahead of us.Â

For instance, the market expects nominal rates to be at 11.75% by the end of the year and close to 9% by the end of 2024, decreasing nominal rates by roughly 500 basis points in approximately 1.5 years. As highlighted before, the last easy cycle took place between 2017 to 2020. Back then, we grew AUM by roughly BRL 30 billion, posting expansion across all our business lines. At the same time, Vinci posted significant FRE margin expansion with close to a 20 percentage point gain in FRE margin. Keep in mind that our platform was not as developed as it is today. We have been actively working these last few years to be ready to take most of the opportunity once we had more favorable markets. I believeÂ VinciÂ is very well positioned for this new cycle, and we could not be more excited with the future ahead. Interest rates are going down, and foreign sentiment toward Brazil is going up. Fittings recently raised Brazil's credit rate, reflecting the improving economic outlook, federal budget control, and record trade balance results.Â

The prorated rating connotes greater confidence in Brazil's ability to meet its financial obligations and attract investments and bodes well to a medium-term investment grade that could be highly impactful. For instance, we are 2 notch away from the investment grade based on the past cycles. We expect to be awarded with the investment grade by 2025. This would mean a sizable flow from foreigners into Brazil across all strategies. Last time, we had an investment grade. International capital held more than 20% of the domestic Brazilian debt. Today, this number is close to 9%.Â

Given that the Brazilian debt is roughly 70% of the GDP, we could see flows of more than 7% of the Brazilian GDP over the years following the recovery of the investment grade. This represents an enormous opportunity to accelerate growth. It is worth mentioning that a significant part of price moves take place before the investment-grade stamp is awarded. Also, S&P just put Brazil in a positive outlook. To close my remarks, let me provide an update of our fundraising efforts going forward for our closed-end funds. The ICC, our climate-oriented fund in infrastructure, continues to observe lots of traction with institutional Ps. We should see new commitments coming throughout the second half of the year, and the fund is on track to reach its target by the first half of 2024.Â

The VCP 4 just closed in July an important capital raise with XP that will contribute to third quarter numbers. We also should see new commitments for local institutional players in the second half of the year. And then for the last and potentially more meaningful round of fundraising should come from our international piece, which we are aiming at the end of ECP's fundraise. Raising capital for traditional private equity funds has been a challenge for all of our global peers. We expect to see improvements on this front in the beginning of next year. Meanwhile, we have been experiencing an increase in appetite from local institutional players to alternatives. This reinforces the ongoing shift from Brazilian players towards alternatives. We are seeing this in an environment of historically high-interest rates with the easing cycle, we should see a pickup in this trend. Momentum is great for all of our strategies, and we are excited for the coming quarters. We will continue to work on delivering on all fronts we have discussed today, and we'll keep you posted as we go along. Thank you for your attention and for attending our call today. With that, I'll turn it over to Bruno to go over our financial results.

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**Bruno Augusto Sacchi Zaremba** - *Vinci Partners Investments Ltd. - Chairman of Private Equity Group & Head of IR*

Thank you, Alessandro, and good afternoon, everyone. Starting on Slide 9, we will cover AUM trends for the second quarter.Â VinciÂ ended the quarter with BRL 65 billion in AUM, up 9% year-over-year, driven by growth in our private market strategies over the last 12 months and appreciation, markups across liquids, and our REITs. Long-term AUM accounted for BRL 33 billion in the quarter, increasing 20% year-over-year, pushed by the appreciation in the REITs and our new capital commitments across private equity, in front credits, and now represents more than 50% of each total AUM.Â

This quarter, our AUM was positively impacted by market appreciation. For the past 2 years, we added long-term commitment into our private strategies through organic and inorganic expansion. And this effect was partially offset by market depreciation across liquids. Now we have started to benefit from the early stages of what we believe will be a very positive outlook ahead of us. During our last earnings call, we talked about how the depreciation of the REITs market affected us, and we anticipated that they should recover this quarter. At the end of the second quarter, our REITs have more than fully recovered. Looking across our REIT universe, some have surpassed the threshold where they become eligible for future capital raises. With that said, we expect to see follow-ons in our listed reach in the second half of the year and even more next year.Â

For the last 2 years, with rising and very high nominal interest rates in Brazil, primary issuance in the REIT was not possible. We bridge this period created although lower volume share for asset swaps. The REIT vertical has been a meaningful contributor to our fundraising in the past through significant primary issues, and we are very happy to get an inflection point where this contribution would once again be expected. We already have new issues slated for the second half of the year. As previously mentioned by Alessandro, we will be active in the second half of the year with our 2 main private equity style funds currently raising capital, the ICC and VCP IV. VCP IV just held a closing (inaudible) that we impact third-quarter numbers as this fund will charge retroactive management fees on all subsequent closes on to its final close. We are seeing great traction from locals for VCP, and this will be the biggest allocation from local investors since the inception of our VCP strategy.Â

Apart from this closing with VCP, we should see new commitments for VCP until the end of the year. As we anticipated, international investors should be more impactful towards the final closing of the fund as they continue to digest global overall location to the asset press. For the ICC, we expect to see new commitments both in the third and fourth quarters backed by international investors. The amount of traction obtaining this product was significant, with the first close of the fund representing more than 60% of the target amount. Even in positive market conditions, this would have been a great result. In the current environment, this result is remarkable and the merits of the quality and track record of our infrastructure team.Â

On a side note, we are on track to launch VIR5 and SPS IV by the end of the year. This should be our next focus for new capital in private markets and carry our fundraising efforts in 2024. Moving on to Slide 11, we go over crude performance fees in our private market funds. Gross accrued performance fee receivables accounted for BRL 18.6 million in the second quarter, up 60% quarter-over-quarter. The VCP strategy currently accounts for roughly 90% of accrued performance fees, representing an appealing upside for future performance fees.Â

With capital returns happening in SPS and GIR, we expect a source of potential future performance fees from our private market verticals to be diversified in the coming quarters. Turning to Slide 12, we will cover our fee-related revenues. Revenues from management and advisory fees totaled BRL 106.8 million in the quarter, up 11% year-over-year due to a combination of factors. First, the ongoing fundraising across private market strategies for funds that carry full fees, and we increased our average fee rates once we closed this fundraising cycle. Second, the acquisition of ISPS, and third, a higher contribution from advisory fees in this quarter. We should see a continued positive trend coming in the next few quarters following new capital raises across our private market segments.Â

For VCP IV and the ICC, we have another important contribution as managed additional capital committee in this fund will retract fees to the date of the fund's first closing. DCP's first closing was in the middle of 2022 and the impact of future closes would be meaningful. The ICC started its first close at the end of the first quarter of 2023. In Slide 13, we present our operating expenses for the quarter and year-to-date. Total expenses accounted for BRL 61.4 million in the quarter, up 22% year-over-year. Excluding bonus compensation, operating expenses were up 10% year-over-year, driven mostly by the acquisition of VICSPS. On a more normalized basis, total expenses were BRL 113.5 million over the year-to-date, an increase of 15% compared to the same period last year.Â

Moving on to Slide 14, we go over our fee-related earnings for the quarter. FRE totaled BRL 50.7 million or $0.94 per share in the quarter, up 11% year-over-year on a per-share basis. Over the year, FRE was BRL 100 million, up 10% when we compare with the first half of 2022, driven by the strong EM expansion in our private market strategies and a higher contribution from advisory fees in the second quarter of 2023. Over the next quarters, we should see a positive impact in FRE coming from retroactive fees following new commitments in VCP IV and VICC. As those fees retract from the beginning of the fund, they could be relevant additions to management fees.Â

Despite a harsh environment, we were able to maintain margins with a disciplined cost control. We expect that concluding this fundraising cycle for private markets with a better outlook for local markets, we should start to see improvements in margins, given the leverage potential of our platform.Â

Turning to Slide 15. We will cover our performance-related earnings. PRE totaled BRL 5.4 million in the quarter, an increase of 124% year-over-year, driven by contributions from liquid strategies. Although posting modest results, we want to highlight the potential for performance fees from this moment onwards. Most of our funds carry high watermark clauses, which inhibits them to charge fees on the down market. With the recent appreciation of the liquids market, our funds are getting close to their high watermark, therefore, becoming eligible to charge fees once again. With the current market appreciation and the good outlook for looser monetary policy in the second half of the year, we could once again show more meaningful PRE results in the fourth quarter, potentially into 2024.

Shifting to Slide 16, we go over realized GP investment and financial income.Â VinciÂ had BRL 34.4 million in realized EPM financial income this quarter, up 38% on a year-over-year basis due to a good quarter for our liquid portfolio following a constructive local environment. Over the year-to-date realized GP and financial income totaled BRL 60.3 million, represent an increase of 16% compared to the same period last year.Â

Turning to Slide 17. We go through our adjusted tie earnings. Adjusted receivable earnings totaled BRL 70.4 million or EUR 1.30 per share, up 18% year-over-year, backed by a higher contribution from financial income, PRE and FRE. Adjusted FRE totaled BRL 130.4 million or EUR 2.40 per share over the year-to-date, up 12% when compared to the same period last year. Moving on, I would like to cover our balance sheet highlights in Slide 18.Â

As of the second quarter,Â VinciÂ had committed BRL 1.1 billion to proprietary closed-end funds. These commitments will work seed investments in our funds to leverage fundraising with Pace and drive future growth in private markets, FRE results backed by long-term capital. These commitments also represent a relevant medium- to long-term potential return as the realized gains from these funds will be recognized at realized GP investment income in our quarterly earnings. Considering that private markets fund have above-average target returns, this could be extremely relevant to earnings in the future.Â

Lastly, I would like to touch on a topic we talked about last quarter. We have prepatory positions in several reads that suffered from market depreciation last quarter, resulting in a negative impact in our net income. Back then, we anticipated that these funds could recover in the second quarter. We would like to share that these funds have more than fully recovered over the second quarter, which explains the strong accounting net income this quarter. And with that, I will turn it over to Sergio to go through our segments.

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**Sergio Passos Ribeiro** - *Vinci Partners Investments Ltd. - COO & CFO*

Thank you, Bruno. Turning to our segment highlights. As you can see in Slide 20, our platform remains highly diversified, which we believe to be the main contributor to the resilience of our business. Disregarding investments made in the VRS segment, 59% of our FRE over the year-to-date came from our private market strategies, followed by IP&S and the liquid strategies with 16% and financial advisory contributing with 8%. The same level of diversification is reflected in our segment distributable earnings.Â

Moving on to each of the segments is starting with our private market strategies on Slide 21. FRE totaled BRL 29.8 million in the quarter, up 23% year-over-year, driven by the strong fundraising cycle experienced over the last 12 months and the acquisition of VinciSPS. Please note that as previously mentioned by Alessandro and Bruno, we should see new commitments coming from VSPIV and VICC, over the next few quarters that will impact positively management fees, both from a recurring standpoint and a one-off basis due to attractive fees that new commitments trigger to the start of the front.Â

Segment distributable earnings were BRL 35.4 million in the quarter, an increase of 17% year-over-year, boosted by FRE growth. Total AUM was BRL 29.4 billion for the end of the quarter, up 22% year-over-year. Moving on to our IP&S business on Slide 22. FA totaled BRL 7.8 million in the quarter, down 32% on a year-over-year basis. Even though our AUM numbers remain consistent year-over-year, we experienced a shift in the allocations with IP&S. The IP&S segment has, in the last 12 months, raised capital from exclusive separate mandates, which carry a lower fee rate while suffering punctual redemptions in our open-ended products that are offered to individual investors through distributors and platforms. This mix impacted management fee revenues in a year-over-year basis. Nevertheless, we expect P&S to benefit from the current improvement in the macroeconomic environment as institutional investors tend to seek for assistant to meet their trial goals when rates stabilize in a more consecutive level.Â

With that said, we should expect a pickup in AUM numbers between the end of 2023 and through 2024. Moving on to Slide 23, we go over the results for liquid strategies. Fee-related earnings in the quarter of BRL 8.1 million, down 15% year-over-year. Total AUM was BRL 11.5 billion at the end of the quarter with AWM being impacted by favorable market market effect, which were concentrated in the later part of the quarter. The same phenomenon I described for the IP&S segment, we can attribute to our liquid in this quarter, as we have also experienced fundraising needs majority for exclusive mandates that carry a lower fee rate than the flagship strategy. These were the main reasons that uphold a lower FRE with AUM improving on a year-over-year basis. We expect to see a pickup in management revenues over the third quarter following this recent appreciation that occurred in the end of the second quarter.Â

On a broader spectrum, liquidity strategies should benefit from this easing cycle, it started last week by the Central Bank as we expect investors to be more inclined to allocate capital towards public equities. That should take a few quarters to materialize. On a less note, I would like to cover the PRE potential with liquid strategies. Since our IPO, we faced volatile public markets which inhibits us chart, performance fees in several funds that carry a high water market clause. Now if the recent pickup in local markets aligned with the good outlook ahead of us, it could be once again impact for performance fees in the end of the year.Â

Turning to Slide 24. We cover our results for financial advisory. FRE for financial advisory was BRL 7.1 million in the quarter, up 119% on a year-over-year basis. This quarter, we are able to close a few mandates that contributed to an increase in advisory fees. For the year-to-date, FI totaled BRL 8.6 million, representing an increase of 118% compared to the same period last year.Â

Finally, moving on to Slide 25, we go over results for the Retirement Services segment. Fee-related earnings for the quarter was negative BRL 2 million, and over the year-to-date represented a negative BRL 3.6 million. We officially launched the product this quarter to our partners and employees, and we are expanding to our high net worth investors base throughout the second half of the year. We are very optimistic and excited with the prospect for VRS. However, as we have been discussing over the past few calls, we should only see meaningful numbers next year. That's it for today's presentation. Once again, we'd like to thank you for joining our call. With that, I would like to open the call for questions. Kirit?

## QUESTIONS AND ANSWERS

**Operator**

Thank you. (Operator Instructions)Â Our first question comes from William Barranjard from Itau BBA. P

**William Barranjard**

Thank you for the opportunity and congratulations on the good quarter. So from our side, I have 2 questions. I'll start with the first one and then I'll ask the second. So the first one is on liquid strategies and REITs. You showed good performance in AUM this quarter, but they're mainly from the appreciation of the AUM, right? So for REIT, you already told us that fundraising is already loaded, but I would like to grasp here what is the impact you sense in nominal terms, if you could, in terms of inflow and fundraising. And I know for liquid strategies, it's a little bit harder to predict, but if you could also give us a view on that would be nice.

**Bruno Augusto Sacchi Zaremba** - *Vinci Partners Investments Ltd. - Chairman of Private Equity Group & Head of IR*

Okay, William. This is Bruno speaking. So as you said, I mean, liquids is a little bit less predictable. We are -- obviously, what we can do from our side is performed, right? So the good news is that our liquid funds on the equity side and also the commingled fund that we have in IP&S, they are all in the higher rankings in terms of performance at this point. So we have both via equity strategy in the first quartile and commute funds and IP&S probably in the first, I would say, at least the first quartile. The numbers are very, very good at this point.Â

With the first cutting interest rates, the impact was really immediate. So this quarter to date, now the third quarter to date, we already have positive flows for equities, which is something that hasn't happened in a structured and sustainable way for a very long time. In IP&S, with the performance that we have on the coming side, we expect that to happen as well. So funds are very well positioned, and we are starting to see positive flows and obviously, the outlook for those flows as interest rates continue to come down, and the expectation is that they will, we expect those folks to accelerate. In the REITs, it's an important part as well of the fundraising potential forÂ VinciÂ and a part to be very transparent, we have been missing very dearly in the past couple of years. Alessandro mentioned what we did in the prepared remarks, what we did in the last easing cycle when we built the REIT platform.Â

And the last time that we have a little bit more positive environment was in the first half of '21, and we raised almost $2 billion in that moment. So today, we have a very fragmented or diversified host of funds in the REIT space. We have agriculture, we have credit. We have shopping malls, we have logistics sites. We have offices, urban rental income. We have an MLP in the infrastructure side of the business as well. And all of these products, they are in a very good position to raise capital. So the total amount of AUM that we have today is close to EUR 7 billion in this group of funds. So that means that the potential added AUM inflow organically coming from these products going forward as they are in a position now to raise money can be very material, right?

So the first inflow from new capital we expect to come in the second half. It's probably -- I mean has the potential to be a number around BRL 1 billion if everything goes right. But the expectation is that these opportunities for us going forward now they're going to open up quite materially. And we expect for at least 2024 for inflows from the REIT to be materially accretive to our AUM growth, which has not been the case over the past couple of years.

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**Alessandro Monteiro Morgado Horta** - *Vinci Partners Investments Ltd. - CEO & Director*

William, this is Alessandro. Just to complement to Bruno's answer. Just a brief comment on this one raising for the REIT, they go straight to our water line because this is really the management fees with no cost associated in terms of people and teams. So this is really a very immediate impact in our numbers.

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**William Barranjard**

Now if I could ask a second one, this one on the FRE margin. It decreased a bit this quarter, I guess, mainly due to a shift in the fundraising and Pemex in both IP&S and liquid strategies. Is it right? Is that right? And if so, could you elaborate more on that, helping us understand here what you expect ahead in terms of mix and margins on these strategies?

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**Bruno Augusto Sacchi Zaremba** - *Vinci Partners Investments Ltd. - Chairman of Private Equity Group & Head of IR*

Okay. It's Bruno again. The reason why we had this shift in the margin in the second quarter was mainly given the fact that we had a very strong advisory quarter in relation to the rest of the business. And then that creates a little bit of a shift from a bonus composition standpoint. So the bonus provision usually is a little bit higher when we have this type of mix in the revenue, right? Going forward, I mean, we do not -- it's very difficult to say when the advisory business is going to have a strong quarter like this one. But the needs will have some impact on the bonus provision side, right?Â

The company, we underwent a productivity effort now in the beginning of the year that we were able to occur beyond some of the cost escalations that we had. So if you look at the corporate center costs on a year-on-year basis, we're basically flat. So it was a very good performance on that side of the business. And now if inflows accelerate, hopefully, that's going to happen in the next few quarters, we expect to be able to show more material cost leverage, right? So the idea is really to be very focused on expanding margins going forward. And as Alessandro said, the REITs are a good example, but this is true for most of our business lines.

The structure that we have can absorb additional incremental AUM with very limited cost addition. So the expectation is that as we accelerate the fundraising, we will be able to begin the gain in margins as well.

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**Operator**

Our next question comes from RicardoÂ BuchpiguelÂ from BTG Petrol.

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**Ricardo Buchpiguel** - *Banco BTG Pactual S.A., Research Division - Research Analyst*

I have 2 questions on my side. Looking at Q3 dynamics, given the better inflows that you already mentioned in terms of REITs and liquid strategies. The appreciation of the AUM for the full quarter and more private market close, especially with the retroactive fees. It's reasonable to expect a double-digit expansion in FRE quarter-over-quarter. And also related to FRE, you'll notice a steady -- a strong increase in the advisory fee business and recovery from the level a little bit that you had in the prior quarters. So I wanted to understand a little bit if you should see advisory fees running with double-digit revenue in the following quarters given the market -- the capital market improvement? And then I ask my second question.

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**Bruno Augusto Sacchi Zaremba** - *Vinci Partners Investments Ltd. - Chairman of Private Equity Group & Head of IR*

Okay. So going to your 2 questions. The impact on the management fee revenue for the third quarter, it can be relevant. So we have visibility today of at least BRL 1 billion between VCP and VICC, that are being closed in the third quarter. I would say probably 60% to 70% of that will be related to DCP and 30% to 40% of that related to the ICC. DCP's AUM are going to retract the full year. So it can be a number north of $10 million, let's say, in terms of impact from those 2 effects, let's say. So those could have really a meaningful impact to the numbers in the quarter.Â

In regards to advisory. Quarter-to-quarter is very tough to forecast, right? So we tend to look at this more on at least a 2- or 3-quarter rolling basis because of the timing of closing of deals it's very difficult to predict. What I can tell you is the following. Today, our pipeline is over BRL 100 million in terms of the total pipeline for M&A on the M&A side, the advisory business. And usually, we expect this to be realized in the period between 3 and 4 years. If the capital markets activity continues to improve, we can eventually pull forward some of these mandates and closing quicker.Â

So that would obviously be a positive impact to our short-term numbers. But on average, we are still seeing at least at this point in time, what we had guided to guys in the past which has been a number in terms of advisory between EUR 30 million and EUR 40 million per year. So that continues to be the expectation for 2023, but without really being able to say how much of that will fall in the third quarter or in the fourth quarter, but we expect to do that within that range of $30 million to $40 million on a normalized basis, right? So that would be an expectation for a 12-month rolling basis with the level of backlog that we have today in that part of the business.

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**Ricardo Buchpiguel** - *Banco BTG Pactual S.A., Research Division - Research Analyst*

Very clear. And if I may have another follow-up with the capital markets becoming more active, we have observed a lot of investment exits by private equity funds. So could you explain a little bit more how is the rules for the funds of being to begin paying performance fees in private markets, in particular, if there is any catch-up rules and any sort of particularity about this process? And also comment a little bit about the different impact that we should have in terms of accounting net income and distributable earnings given that your book and realized performance fees.

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**Sergio Passos Ribeiro** - *Vinci Partners Investments Ltd. - COO & CFO*

Okay. So let's divide here between the liquids and IP&S side and the privates. Liquids and IP&S is what we discussed in the call, right? So we have a report, an internal report that is a watermark report that we track on a weekly basis if I'm not mistaken, where we see the distance of our funds in general to their respective watermarks. And what I can tell you now is that we are at the money, right? So that means that any outperformance that we have for most of the strategies of the company, we are going to earn performance fees. This is a number that if you go back to 2018, 2019, 2020, we had EUR 40 million, EUR 50 million, EUR 60 million of performance revenues coming from the liquid side of the business, which, again, as the case of the retail in the past couple of years was very small, right? So we didn't have this contribution, which, given the levels that we have today in the market, they can be more meaningful going forward, right?

In terms of the performance for the private side of the business, Typically, what we have is a structure where we pay carry on a European waterfall basis, right? So what that means is that we need to return to LPs their full capital with the opportunity cost, right? And then depending obviously on the index and on the currency. And in the case of the international capital, usually, it's $18 preferred return. In the case of the Brazilian fundraising, it depends on the fund, but it's between 6% and 8% plus inflation. So once we return 100% of the capital plus the preferred return rate, we're eligible to start accruing -- both accruing on the balance sheet and also receiving performance fees. The accrual on the balance sheet -- what we have in terms of historical conversations with our auditors is that we're going to start recognizing those performance fees in our balance sheet once the probability of them being materialized becomes very high, which means having already surpassed the preferred return with the full capital realization.Â

So today, we only have one of our funds in that situation, which is our infra, which is a fund that we already returned 100% of the capital. And we have booked the current mark of the asset that is remaining the fund in our balance sheet, which is also in the presentation, those -- it's a number around 80 million that is booked in our balance sheet as performance, right? We have that in one of the slides. When we recognize when we sell this asset and this asset is currently in the process of being sold is the final asset of this fund. We are already in the diligence phase to sell the assets. Once this asset is sold, we're going to recognize the performance fees and lower the amount of receivables that we have on the balance sheet. In addition, and this is going to be the first time that we're going to have a material impact coming from the side of the business as well.

This fund had GP investment in one of the private funds that we had GP investment in. So it's going to impact both lines. So we're going to revert the receivable in the balance sheet as performance fees. And on top of that, we're going to realize the gain in our distributable earnings that is currently using our cash position, but book doesn't realize. So those will be the 2 impacts. So that's how we would expect this to happen. So we need to have capital return, full capital return for the preferred rate, then the gains going forward will be accrued as received with the balance sheet and impacting our income statements as unrealized performance fees. And then once we exit, we realize the impact ourÂ (inaudible)Â warrants.

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**Operator**

Our next question comes from Tito Labarta from Goldman Sachs.

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**Daer Labarta** - *Goldman Sachs Group, Inc., Research Division - VP*

So I have just, I guess, a follow-up on the FRE margin. I just wanted to make sure I understand the explanation there. Bruno, I think if I misunderstood or if I understood correctly, you said it was partly due to the increase in the advisory. But if I look at the FRE margin because the FRE margin for financial advisory, it was actually higher this quarter compared to 1Q. So I mean, it looks like the -- by strategy is the main decline for IT&S, and private markets fell a little bit. I think you explained that IT&S was due to mix. But just to understand, I guess, the decline in the private markets FRE margin. And should that kind of go back to what we saw in 1Q? Just to understand the quarterly dynamics there a little bit better.

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**Bruno Augusto Sacchi Zaremba** - *Vinci Partners Investments Ltd. - Chairman of Private Equity Group & Head of IR*

Okay, no problem. So in private markets and IP&S, we had 2 impacts. One was that in the first quarter of '23, we had a close in VCP IV in which we retracted rates. So there was one-time revenue -- management fee revenue that was booked in the first quarter that we didn't have in the second quarter. So that's the bulk of the impact on the private market side when you compare the quarter to the next, right? So obviously, with that, let's say, the nonexisting revenue impact in the first quarter -- sorry, in the second quarter when compared to the first. We have some cost deleveraging, obviously, the margin suffers a little bit.Â

And then finally, in the IP&S case, we have basically an impact that was the following. In the second quarter of last year, it was the peak exposure that we had in one of our patient plan funds, Equilibra, in which we ended up -- ended that quarter with a number of around EUR 3 billion of AUM in that product. That product has a very high fee for us. We are now in a worst possible moment in that comparison because we had withdrawn of, I would say, a meaningful approximately half of that capital, a little bit more than half of that capital because that fund is a fund that is an allocation fund. So it has a mix of equities and fixed income. And we had a very poor market performance in the second half of last year. So that impacted the performance of this fund.Â

I mean, usually, people are very attached to short-term performances, and we had withdrawn in this fund. So when you compare the year-over-year in the case of IP&S, although the AUM dropped single digits, the revenue dropped more because we had losses in the funds mainly, which is this family of pension plan funds, which carry very high fees. So we have -- in the case of IT&S, we had last year, our average fee rate of, I think, it was high 30s, 37%, 36%. And this family of products carries an average fee of 1%, so as we had withdrawn this money and compensated part of the withdrawal with separate mandates, the fee rate was hit, and then we had cost deleverage, and we had the margin impact that you alluded to. So those are the 2 -- the explanations between private markets and IP&S.Â

Thinking about the next few quarters with the closings that we're going to have in private markets, REITs, the ICC, VCP, we are going to have the -- probably the opposite impact. We're going to have a positive impact from one-time fees on the retroactive side, and also the carrier fees going forward because we're going to have a higher AUM, and that will allow us to dilute more of the costs. And IP&S is more of a day-to-day flow business. We are seeing flows improving, but there's no one-time impact or discrete impact as is the case of the private market side. So we expect the leverage on the (inaudible) to be more gradual. Although the comparison in the second quarter is the worst one because we're comparing the high allocation with the law of allocation, which we expect to be the second quarter of '23.

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**Daer Labarta** - *Goldman Sachs Group, Inc., Research Division - VP*

Okay. Great. Thanks for clarifying, Bruno. I think that's pretty clear.Â

So you could have some retroactive fees again in 3Q, it sounds like so that could boost a little bit the fee margin for private markets. And just on the IT&S system, so is a more normalized margin for P&S around this mid-40% range that we saw, I guess, in 1Q and 2Q, not the 50-something percent that we saw last year?

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**Bruno Augusto Sacchi Zaremba** - *Vinci Partners Investments Ltd. - Chairman of Private Equity Group & Head of IR*

Hopefully, we can go back to that level. I think it will depend on the mix of products that we grow going forward. The positive thing is that the flow to the pension plan is going up. So given that those are carrying higher fees, the amount of fixed cost dilution that we can have there is very big. The team will not change. I think that's an important point. The (inaudible), if they manage $20 billion or $30 billion, it's going to be the same team. So there's going to be some bonus provision, which are running today, let's say, at around 19% to 20%, and the rest is FRE. So to that extent, the leverage that we get there, it will be very directional with the amount of AUM and the fee rate that we have. So it could go back to -- depending on the revenue base, it will go back to the levels that we had last year.

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**Alessandro Monteiro Morgado Horta** - *Vinci Partners Investments Ltd. - CEO & Director*

And Q2 here is Alessandro, just to reinforce Bruno's point what has been happening in the last year in IPF that we have been assessing -- we suffered. Now we are in the opposite direction, but we suffered some redemptions coming from these retirement and pension products where the final clients are retail, it's a retail decision and they carry higher fees. But at the same time, they are more volatile. And we have been compensating that in terms of we more institutional money that carries lower fees. Going forward, we are already seeing the flows from retail changing on a more positive tone.

But we are, of course, seeing faster inflows and requests for proposals coming from institutional investors. So we expect growth in AUM, but also from retail and pensions, but with -- sorry, institutions. So we believe the institution will come first, but the retail is picking up that carries higher fees. So that we will probably -- will be growing the margin and the fees at the average fee for the whole segment, but it's difficult to predict exactly how it will occur going forward.

**Daer Labarta** - *Goldman Sachs Group, Inc., Research Division - VP*

Okay. Great. That's very clear. Alessandro and Bruno. And if I can ask a second question, more on the performance fees, Alessandro sounded like you saw that optimistic, but you could potentially realize more performance fees in the second half of the year, maybe towards the end of the year, did every day correctly. Would that be more like towards the end of the year? And one on the PRE margin, typically, it's around 65% this quarter. It fell to 50%, (inaudible) performance fees was higher this quarter?

**Alessandro Monteiro Morgado Horta** - *Vinci Partners Investments Ltd. - CEO & Director*

Okay. Yes, we expect to see more performance-related earnings especially on the fourth quarter of the year, okay? Since on the liquid strategies, we are, as Bruno mentioned, at or over the highway mark. So we are in the point that any, I'd say, over-return will be charging performance. Also, at the same time, on the private market, as we mentioned, a few funds are already paying as they infra-fund performance fees.

And specifically, so it would be an effect that we expect for the fourth quarter. And specifically in terms of margins is because on this second quarter performance numbers, we benefit from performance for one specific strategy that we have inside liquids, where we have a higher percentage of the performance fee that is distributed to the team. So that's explained why specifically in this quarter, we had this effect of a lower margin in PRE.

**Operator**

Our next question comes fromÂ Yuri Fernandes fromÂ JPMorgan.

**Yuri Rocha Fernandes** - *JPMorgan Chase & Co, Research Division - Analyst*

Most of my questions were already answered. But I have one regarding inflows. When we check the June data on Lima, we see more inflows. I guess this quarter, you have the figures and X IP and I guess most of your strategies, they are performing well. So just an outlook here for the second half too, are expecting like you already have July on your plate, right?

So just checking how you're seeing flows for the second half, if we should see an acceleration on inflows. And especially if we need to see a certain level of Selic for you to start to see like things getting more material. So like just checking how you're seeing things? And the second question is if there is a Selic, don't know going to low double digits, single digits, that would be like where you believe deceleration making more momentum.

**Alessandro Monteiro Morgado Horta** - *Vinci Partners Investments Ltd. - CEO & Director*

This is Alessandro. Thank you for the question. Yes, we are seeing more inflows, as we mentioned, especially on the -- on July and et cetera, there is a subsequent numbers that we already mentioned regarding the private market strategy, especially the private equity VCP IV with this XP and some other fundraising efforts that will be materialized in the third quarter and also the ICC. And that will continue over the rest of the second half, where we really expect this to pick up. As we mentioned, again, we saw a lot of interest and the numbers slowly being positive for equities and also for some IP&S strategies. So yes, we expect the inflows to improve already on the second half of the year, okay?

To your second question regarding level, we believe that when we will have on the high single-digit selic, that will be really an environment that we expect a very strong growth in terms of AUM across all of our strategies because that will translate in real interest rates that will turn a lot of our products that now we are in a very good position since they are in the first quartile of their benchmarks of the peer groups, we could really take advantage of that position when the selic rate a more normalized level. Of course, we will see on the second half and next year already a good inflow. But when we see something under 10% or high single digits, around 9 and 9 something, really, we expect that to pick up strongly in all of our investment strategies.

**Yuri Rocha Fernandes** - *JPMorgan Chase & Co, Research Division - Analyst*

Super clear. Thank you very much. Congrats on the strong quarter.

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**Operator**

The question-and-answer session is over. We would like to hand the floor back to Mr. Alessandro Horta for the company's final remarks. Please, Mr. Horta, you may proceed.

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**Alessandro Monteiro Morgado Horta** - *Vinci Partners Investments Ltd. - CEO & Director*

So I would like one more time to thank you for your support, your interest and say that we are becoming increasingly more optimistic with the next few quarters. The environment is much more benign, and we are seeing this improving going forward. And we are very, very well positioned to capture this opportunity right now, not just because of capabilities, our capacity, our deep knowledge of all the verticals, but also because the funds are with performance relative to the peers really in a good shape. So we expect you in the next few quarters. So thank you very much, and have a good night.

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**Operator**

Thank you. Partner's conference is now closed. We thank you all for your participation and wish you a very good night.

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