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FGV GVcepe

Centro de Estudos em Private Equity e Venture Capital da EAESP

OVERVIEW OF THE BRAZILIAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

RESEARCH REPORT
December 2008

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PINHEIRO NETO ADVOGADOS

Deloitte.

Dear readers,

This research report, Overview of the Brazilian Private Equity and Venture Capital Industry – December 2008, represents the most complete coverage of the PE/VC organizations and their portfolio companies in Brazil in 2008, being the second in a series of annual reports begun by GVcepe in 2007. This initiative not only meets the needs of the industry and its investors in terms of reliable, consistent, and current information, but will also serve as a base for further academic studies including GVcepe's most ambitious one, the 2009 Brazilian PE/VC Census and the Economic Impact and Sustainability Study.

We worked with a sample of 90% of the PE/VC organizations and reconstructed the capital commitments and investments made since 2005, providing continuity to the work of the First Census of the Brazilian Private Equity and Venture Capital industry. Based on internationally accepted methodology, all the data surveyed were validated with public information available from the CVM, with information from the PE/VC organizations' websites, as well as internally within the data collection system, while at the same time guaranteeing confidentiality through agreements between FGV, Endeavor, and the PE/VC organizations.

The results bring us very pleasant surprises: an enormously dynamic industry, whose committed capital grew 50% per year between 2005 and 2008, which invested USD 11 billion, which employs 1,400 professionals (75% with post-graduate degrees), maintains 482 portfolio companies, and doubled its participation in GDP over this period. It's also interesting to note that of the USD 26.7 billion of committed capital as of June 2008, USD 11.5 billion was available to be invested during the investment period: micro, small, and medium sized companies with a very high impact on the economy, which are characteristic of this industry.

Note that Brazilian pension funds now represent a notable 24% of all committed capital in PE/VC investment vehicles, when compared to the small representation that they had before the implementation of the CVM 391 regulation passed in 2003. Also note the excellent track record of performance and exits through the stock market gained by PE/VC organizations from 2004 on.

The investments during the period were analyzed using a sample representing 55% of the total value and displayed the predominant characteristics of the Brazilian Private Equity and Venture Capital industry: a rapid growth in the geographical distribution of investment, with 72% of the transactions concentrated on the very first phases of a company's life cycle, from Venture Capital – Seed to Private Equity – Expansion. More than half of them were Venture Capital (seed, startup and early stage), and the rest were oriented toward the business expansion phase. Eight industries of the economy made up 63% of the total value of investments, while 37% were distributed among more than 15 different industries, including "traditional" industries.

This work was possible only through great effort and cooperation. We would like to thank in particular the founding members and sponsors of GVcepe, the management of EAESP and FGV, the sponsors of the present edition – Pinheiro Neto Advogados and Deloitte, the partners and supporters of GVcepe – Endeavor, the Gazeta Mercantil, ABDI and ABVCAP, Professor Roger Leeds, and the research team. We would like to give a very special thanks to our supporters at the PE/VC organizations, pension funds and government agencies that with great dedication and competence, met our research team's countless requests so that together we could guarantee the quality, currency, and relevance of the collected information.

Sincerely,

Professor Cláudio V. Furtado
Executive Director
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Overview of the Brazilian Private Equity and Venture Capital Industry

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1. INTRODUCTION AND DEFINITIONS

Private Equity, in its strictest definition, refers to equity investments in private companies. In this way, Private Equity can be divided between Venture Capital and Buyout, with the former referring to minority stakes in companies in their initial stages of development, and the latter referring to the acquiring of control of companies at a more mature stage of development. In other words, Venture Capital is a type of Private Equity investment which is an alternative asset[1].

However, in Brazil the terms Private Equity and Venture Capital have come to be used to distinguish two different stages in the value chain and investment in this industry. Mezzanine and PIPE (Private Investment in Public Equity) investments are also typical of this industry. The research for the Overview of the Brazilian Private Equity and Venture Capital industry – December 2008 and the 2008 GVcepe-Endeavor Guide, the latter being a partnership between the Center for Private Equity and Venture Capital Research at FGV-EAESP and the Endeavor Institute, consider the following stages and types of investments:

1. Venture Capital – Seed
   Seed capital. Small capital investment made during the pre-operational stage for the development of an idea, of a project, market tests, or patent registration;

2. Venture Capital – Startup
   Equity investment in a company while it is being structured usually during the first year of operation, while it still has not begun to sell its products and/or services commercially. During this phase, the company has already begun hiring and has made all the studies necessary to put its business plan into practice.

3. Venture Capital – Early Stage
   First stage of financing for companies that have commercialized products or services, usually aging four years or less and with revenues up to BRL 9 million.

4. Private Equity – Expansion
   Expansion or growth. A series of equity investments to facilitate the expansion of a company that already sells its products/services commercially. The equity investment is also targeted toward expanding the company's footprint, and/or distribution networks, working capital, communications and marketing, etc.

5. Private Equity – Later Stage
   In this stage the company has already achieved a relatively stable rate of growth, and already has stable positive cashflow.

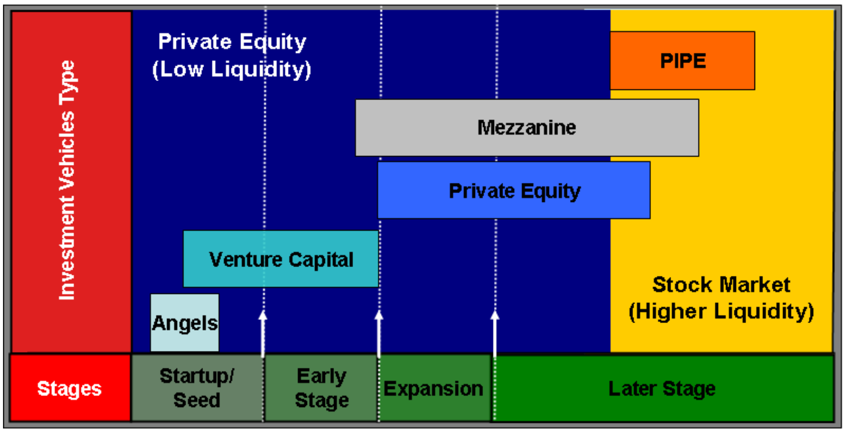
6. Private Equity – Buyout
   Acquisition of control of a company that is already in the advanced stage of development.

7. Mezzanine
   Investments in companies with potential for high steady cashflow through subordinate debt or hybrid financial instruments, including various types of debentures and stock rights.

8. PIPE
   Equity stake acquisition of companies that are already listed on the stock market, present low liquidity and where the managing organization can actively participate in strategic management (i.e. monitoring and corporate governance).

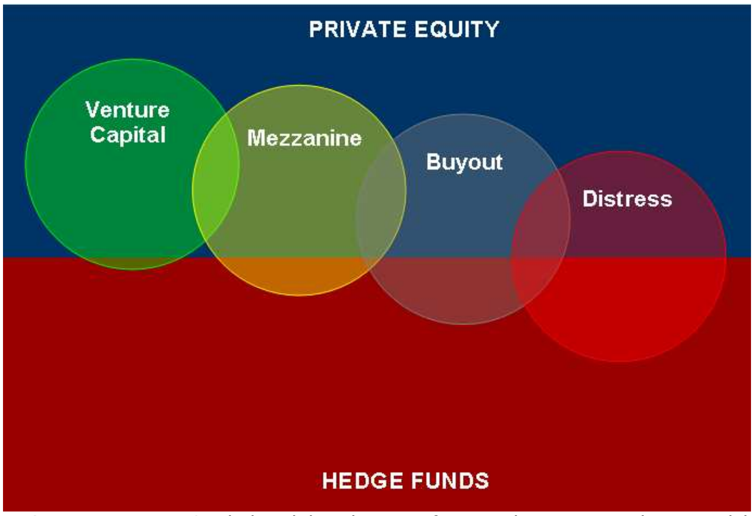
[1] This definition comes from Andrew Metrick in his book Venture Capital and the Finance of Innovation, pp.4, Ed. Wiley (2006).

Stages and Types of Private Equity Investment Vehicles[2]



In the last five years, various hedge funds, buoyed by the high valuations of the stock market, their increasing number of investors, and high global liquidity have begun to turn their attention to the Private Equity market in their search for alternative investments, and have begun to compete with PE/VC organizations in the Private Equity industry. However, in Brazil, this movement has occurred on a much smaller scale.

The Intersection of Alternative Assets Investment Vehicles

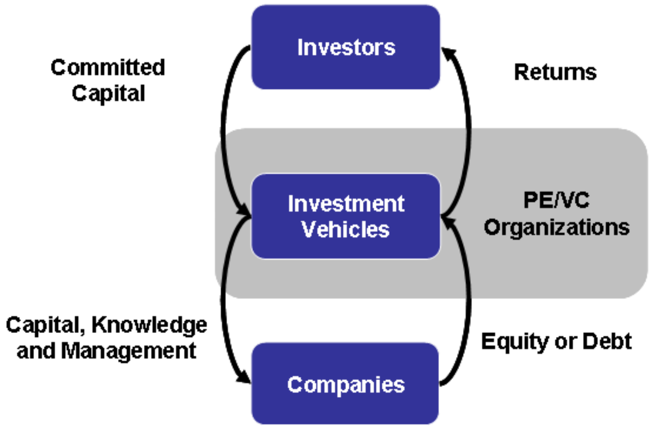


Source: Venture Capital and the Finance of Innovation, pp.7, Andrew Metrick. Ed. Wiley (2006).

In the traditional structure of Private Equity and Venture Capital investments, investors commit themselves[3] to invest in investment vehicles which are managed by the PE/VC organizations. These PE/VC organizations in turn make investment decisions and buy equity stakes in companies which after a period of three to five years are sold, returning capital and hopefully profit to their investors.

[2] Adapted from ABVCAP presentation (slide 12) "Investment in the private sector of the Brazilian economy" in the FINEP Forum – Discussing Innovation. May 2008.
[3] The capital is only cash out by the investors at the time it is solicited by the PE/VC organization in order to make a new investment.

Private Equity and Venture Capital Industry Uses and Sources



Variations exist in the traditional structure of Private Equity and Venture Capital investments. In some cases, the investment vehicles don't contain a defined capital commitment. In others, the investors themselves act as PE/VC organizations and manage their own resources[4] through direct investments or by the use of holding companies. In this study, the following investment vehicles were considered[5]:

1. Limited Partnership
   The PE/VC organization assumes the role of managing partner, denominated as general partner (GP), and the investors are limited partners (LP). These investors are not directly involved in the investment vehicle's management and do not assume legal responsibility over the debts that exceed the value of capital invested. This is the most prevalent type in the United States.

2. CVM[6]
   The CVM rules were created to deal with the absence of the concept of a limited partnership in the Brazilian legislation. The most important of the CVM rules was number 209 which created FMIEEs – Fundos Mútuos de Investimentos em Empresas Emergentes (Mutual Investment Funds for Emerging Companies) in 1994 and CVM rule 391 which created the FIPs – Fundos de Investimentos em Participações (Investment Funds for Partnerships) in 2003.

3. Direct Investment
   The classic distinction between the investor in funds or investment vehicles and the PE/VC organization does not exist.

4. Holding Company
   In most cases it is very similar to direct investment, with the difference being that the PE/VC organization makes its investments through a holding company.

5. Corporate Venture
   Company or economic group subsidiary responsible for Private Equity and Venture Capital investments.

6. Others
   Structures that don't fit the categories above, such as club deals [7].

This research report which constitutes the Overview of the Brazilian Private Equity and Venture Capital industry was produced by GVcepe based on a questionnaire given to the managers of the investment vehicles listed above which were operating in Brazil as of June 30, 2008. It is important to note that this study and the 2008 GVcepe-Endeavor Guide provides a data base which the Second Brazilian Private Equity and Venture Capital Census will build upon, updating and expanding the First Census which was conducted in the beginning of 2005.

[4] Investment allocations made by parent organizations or by the managers themselves.
[5] Adapted from the book A Indústria de Private Equity e Venture Capital – Primeiro Censo Brasileiro (Antônio Gledson de Carvalho, Leonardo de Lima Ribeiro e Cláudio Vilar Furtado). 2005. Ed. Saraiva.
[6] For more information see www.cvm.gov.br
[7] Club deals and pledge funds are structures that give the investors the option to participate or not in the investments chosen by the general partners. Blind Pools are structures in which the general partners make investment decisions in the name of the investors.

2. RESEARCH METHODOLOGY

The research population consisted of all PE/VC organizations that are currently operating in Brazil as of June 2008, independent of whether they have a local presence (office) and/or an investment vehicle already formed and operating. In other words, all PE/VC organizations already defined and structured as such, even if they are still in the process of fundraising, were considered members of the Brazilian Private Equity and Venture Capital industry.

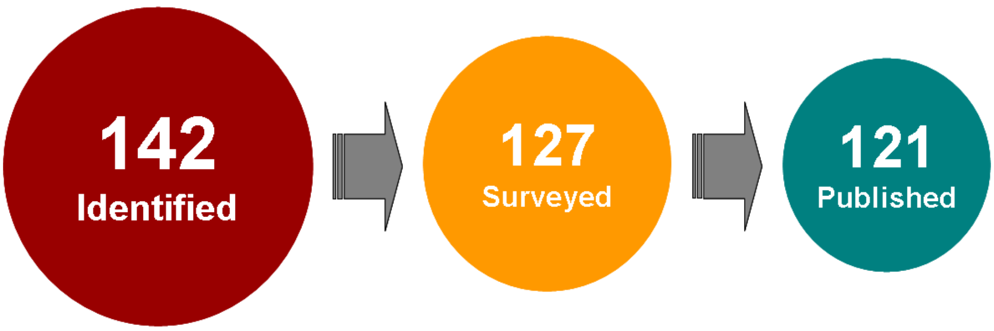
Those PE/VC organizations that informed us that they are no longer operating in the industry, those that are still not actively looking for business in Brazil and/or that don't consider themselves managers of Private Equity and Venture Capital investment vehicles were not considered in the population.

One of the precautions taken in identifying the population was in relation to the FIPs registered with the CVM – Comissão de Valores Mobiliários (the Brazilian Security Exchange Comission) because not all could be considered Private Equity and Venture Capital investment vehicles. Many are vehicles created to structure a transaction just from the tax point of view (ex. acquisitions, changes in partner membership, the sale of holding companies, IPOs, etc.) Many times this is indicated by the presence of just one investor under this structure, being further confirmed by the presence, in many instances, of just one company investing all the committed capital.

Another important issue was the classification and inclusion of PIPE investments as Private Equity and Venture Capital. Organizations that, even though they consider themselves PIPE managers, didn't acquire relevant holdings in low liquidity stock to participate in corporate governance were not included.

With these conditions and exclusions, the Brazilian Private Equity and Venture Capital industry is composed of 142 organizations that work with Venture Capital, Private Equity, Mezzanine or PIPE transactions of which 127 (90% of the population) meet all the prerequisites required to be included in this study.

Private Equity and Venture Capital PE/VC Organizations Active in Brazil (as of June 30, 2008)



Of these 127 organizations, 125 have local offices and two participate through a team working out from their headquarters located outside of Brazil. Of the 127 participants, a total of six PE/VC organizations, even though they furnished all the necessary data, requested that they not be included in the 2008 GVcepe-Endeavor Guide.[8]

[8] Published as a special magazine by the Gazeta Mercantil (GazetaInvest , Year 4, No. 5, December 2008).

Some adjustments were made to the data for the 2007 GVcepe-Endeavor Guide, especially in regard to the amount of committed capital. However, these adjustments did not compromise the comparison with 2007, because it was possible to fill in this data by cross-referencing it with the information obtained during the current year.

In the same way, to fill in the missing information in the industry's committed capital statistics for the years 2005 and 2006, an adjustment was made in the 2004 value based on the data from the First Census of the Brazilian Private Equity and Venture Capital industry. This adjustment was due to the fact that the samples from the two studies are different, and thus they needed to be placed in the same base (June 2008). In addition, despite the fact that they are not considered PE/VC organizations, four angel investors groups operating in the country were first time included in the survey.

The invitation to participate in the survey was sent by email, as well as by telephone. Next, an exclusive access link was given to each PE/VC organization to fill out a questionnaire on the web. The questionnaire consisted of questions in five categories:

- General registration data for the PE/VC organizations (ex. name, profile, category, telephone, address, number of professionals, contacts);
- Investment vehicles (ex. name, legal structure, creation date, sector focus, stage and type of investments, size of investment, investor profiles);
- Portfolio companies;
- Investments and exits;
- Fundraising prospects.

A confidentiality agreement was made between FGV-EAESP, the Endeavor Institute and each of the PE/VC organizations. Besides this, each of the researchers involved signed individually a confidentiality agreement with FGV-EAESP stating that the data and information obtained is the property of FGV-EAESP and that GVcepe is responsible for the guarding, maintenance, and authorization of access to the database by the researchers or any other users.

A team of seven research assistants supervised by GVcepe collaborated in the collection and analysis of the data. The responses from each PE/VC organization were verified and validated more than once with the respondents by cross-referencing the various questionnaire responses, public data from the CVM (for local vehicles) and information available on the companies' own websites. In addition, for PE/VC organizations that have non-exclusive investments in Brazil, a written confirmation of the best estimate of committed capital allocated in Brazil was requested.

The questions about investments and exits had the lowest rate of response of the questions on the questionnaire, perhaps due to the high level of sensitivity and confidentiality of this information. However, it was possible to obtain a good sample of investments and exits in the industry for the period 2005 through the first semester of 2008.

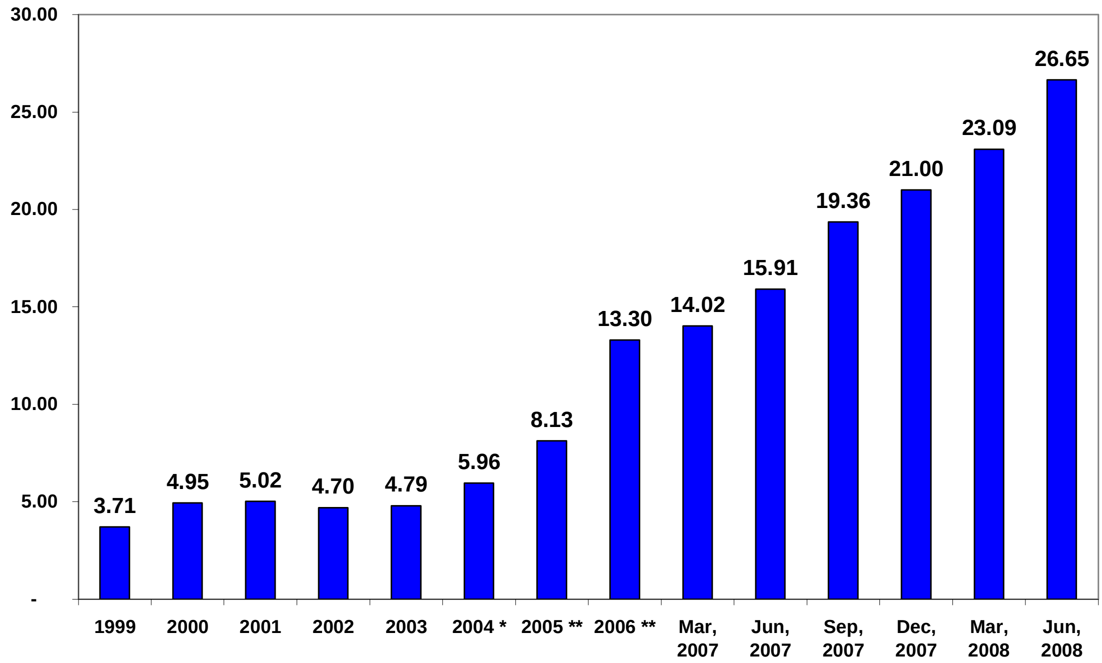
From the collected data, an aggregated analysis of the Brazilian Private Equity and Venture Capital industry was performed which forms the basis of this research report. This initiative offers a base for periodical statistics and more profound studies of the Brazilian Private Equity and Venture Capital industry. We hope that it will contribute to the consolidation and dissemination of this knowledge throughout the country.

3. EVOLUTION OF THE BRAZILIAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

3.1. FUNDRAISING

Over the last few years, driven by global liquidity and the strong growth of domestic economic indicators, the Brazilian Private Equity and Venture Capital industry has gone through a very significant evolution. The growth of total committed capital has been impressive averaging 53.4% per year since 2004 to reach USD26.65 billion[9] by June 2008[10]. Over the last twelve months (June 2007 to June 2008) the industry's committed capital has gone from USD15.91 billion to USD26.65 billion (+68%).

Evolution of Committed Capital Allocated in Brazil (USD billion)

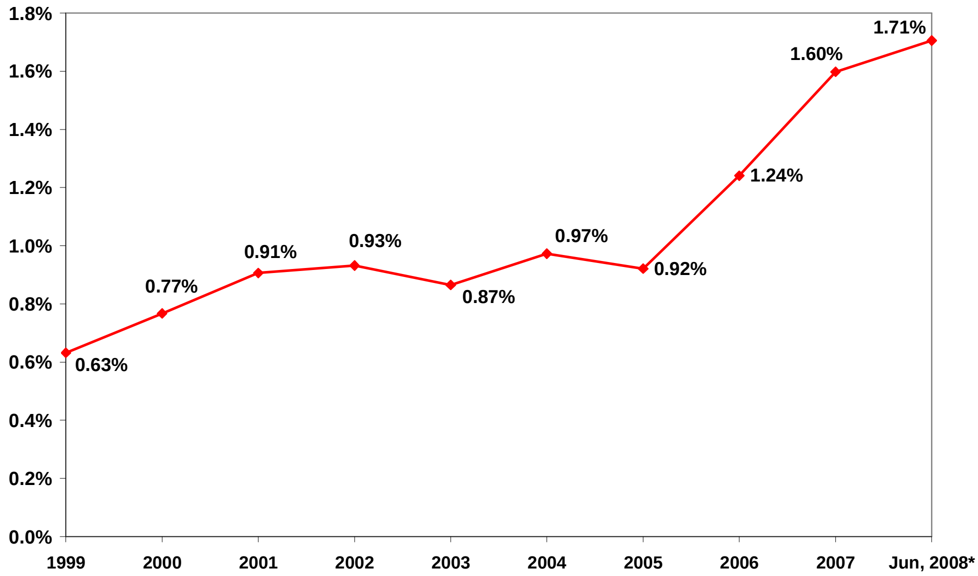


** Estimated. Includes PE/VC organizations which were absent in the First Census published by GVcepe.*
*** Estimated. Considers the PE/VC organizations that have left the market.*
OBS: The committed capital totals exclude those investment vehicles that are fully divested.

Capital commitments in the Brazilian Private Equity and Venture Capital industry as of June 30, 2008 represented 1.7% of GDP, as opposed to 0.6% which it represented in 2004. However, this number is still less than half the world average of 3.7%[11]. In the United States and the United Kingdom, two countries with decades of tradition in Private Equity and Venture Capital, this industry represents 3.7% and 4.7%[12], respectively.

[9] When committed capital is expressed in local currency, it is using the following average exchange rates: BRL 1.81 (1999), BRL 1.83 (2000), BRL 2.36 (2001), BRL 2.92 (2002), BRL 3.08 (2003), BRL 2.93 (2004), BRL 2.43 (2005), BRL 2.18 (2006), BRL 1.95 (2007), BRL 1.74 (1Q 2008), and BRL 1.66 (2Q 2008).
[10] Of the 127 PE/VC organizations, 112 possess investment vehicles already setup and running in the country. A total of 92 PE/VC organizations within these 112 (82%) stated their committed capital which gives us the total of USD 26.65 billion as of June 30, 2008.
[11] Considering the world GDP to be USD 54.35 trillion in 2007 (source: "The 2008 Global Private Equity Report").
[12] Source: "Black Ecomonic Empowerment and Private Equity in South África", by the National Empowerment Fund. Other áreas: Europe (1.9%) , Ásia/Pacific (1.1%), South África (2.8%) and Israel (4.2%).

Evolution of Committed Capital as a Percentage of GDP



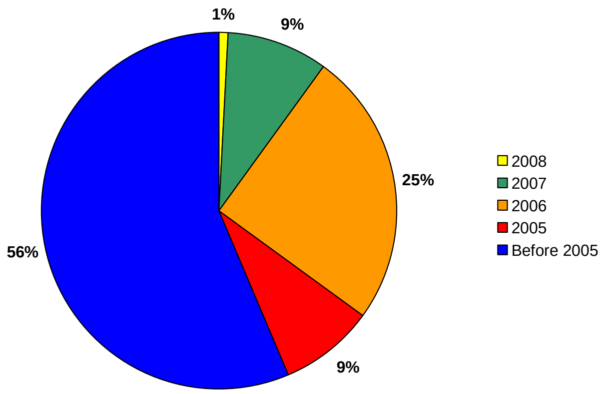
Source: BACEN for GDP in USD; GVcepe for all other data and analysis
** GDP for the first semester of 2008 annualized*

In fact, the business environment for PE/VC in Brazil has evolved in a consistent fashion over the last few years. According to the Scorecard in the Private Equity and Venture Capital Environment in Latin America and the Caribbean[13] developed by the Economist Intelligence Unit at the behest of LAVCA - Latin American Venture Capital Association which seeks to qualify the PE/VC environment in the region by identifying the positive and negative aspects for generating business within the industry in each country, Brazil jumped from 59 to 75 points in the ranking out of a possible 100 in only three years (2005 to 2008). More important than this total is the development and consolidation of the PE/VC business environment in Brazil over the period in question.[14]

Between the beginning of 2005 and the first semester of 2008, almost USD21 billion in committed capital[15] was raised for Brazil, of which USD9 billion (34% of the total) was brought in by 52 of the 67 PE/VC organizations that began operating from 2005 on, and USD12 billion by 26 of the 60 PE/VC organizations that began operating in Brazil between 1981 and 2004. We also emphasize that of the 67 PE/VC organizations that began operating between 2005 and the first semester of 2008, 15 still do not have an active investment vehicle at this time and are still in the process of fund raising.

[13] The criteria of the Scorecard are: laws on PE/VC fund formation and operation; tax treatment of PE/VC funds and investments; protection of minority shareholder rights; restrictions on institutional investors in making PE/VC investments; protection of intellectual property rights; bankruptcy regulation (encompassing bankruptcy procedures/creditor rights/partner liability in cases of bankruptcy); capital market development and feasibility of local exits (i.e, initial public offerings); registration/reserve requirements on inward investments; corporate governance requirements; strength of the judicial system; perceived corruption; use of international accounting standards and quality of the local accounting industry; entrepreneurship.
[14] In 2008 Brazil (75 points) occupied second place in Latin America, behind only Chile (78 points). For comparison purposes: United Kingdom (90), Israel (82), Spain (74), Taiwan (63), Mexico (58), Argentina (50), Colombia (53), and Uruguay (50). For more details see www.lavca.org.
[15] The industry lost around USD 1 billion in committed capital with the departure of 14 PE/VC organizations from the market between 2005 and June 2008. In this way, the total effective volume brought into the country was approximately USD 22 billion during this period.

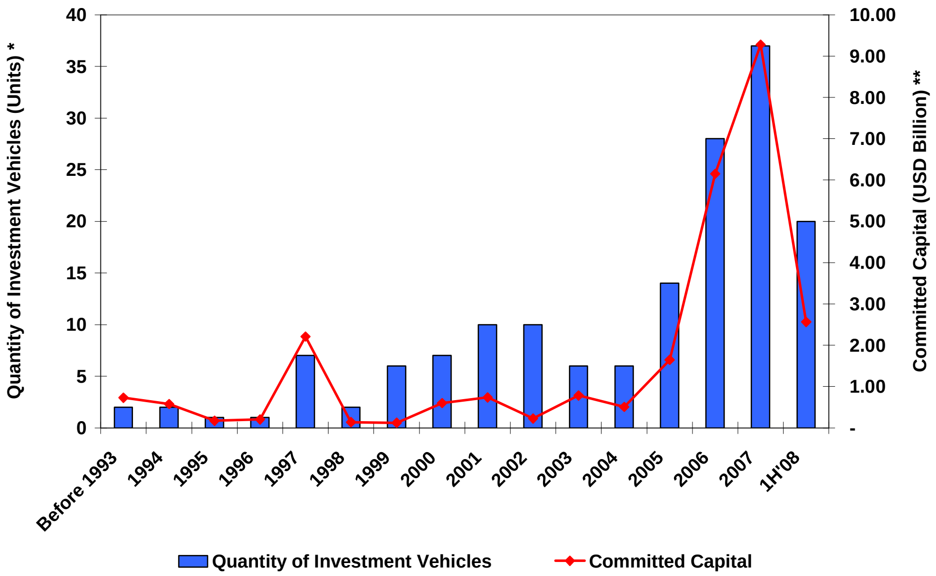
Committed Capital by Starting Year of the PE/VC Organization Operations in Brazil (as of June 30, 2008)



181 investment vehicles were identified as being active in the Brazilian Private Equity and Venture Capital industry. They were under the management of 112 of the 127 PE/VC organizations. The committed capital for 159 of these vehicles amounted USD26.65 billion as of June 30, 2008. The vintage of the investment vehicle was also identified. Thus we were able to track parallels between the macroeconomic environment and the evolution of the industry. Fundraising activity increased at the following points of time:

- Before 1993 – Pioneers in the Brazilian Private Equity and Venture Capital industry;
- In 1997 – Privatizations;
- Between 1999 and 2001 – IT and the Internet;
- Between 2005 and the first semester of 2008 – Dissemination of FIPs, increase in world liquidity, IPOs, macroeconomic stability, Brazil's receiving an investment grade rating, and the reduction of interest rates in Brazil.

Investment Vehicles Vintage[16]



Considers vehicles that divulged their committed capital. Excludes fully divested vehicles and vehicles in the process of fundraising as of June 30, 2008 (sample: 159 vehicles).
*** Value of committed capital as of June 30, 2008 for each investment vehicle.*

[16] When committed capital is expressed in local currency, it is using the following average exchange rates: BRL 1.81 (1999), BRL 1.83 (2000), BRL 2.36 (2001), BRL 2.92 (2002), BRL 3.08 (2003), BRL 2.93 (2004), BRL 2.43 (2005), BRL 2.18 (2006), BRL 1.95 (2007), BRL 1.74 (1Q 2008), and BRL 1.66 (2Q 2008).

3.1.1. ANGEL INVESTORS

Though they are not considered PE/VC organizations, angel investors represent an important part of the value chain of the Private Equity and Venture Capital industry, constituting the first link in the chain for Venture Capital investments in companies during the Seed and Startup stages.

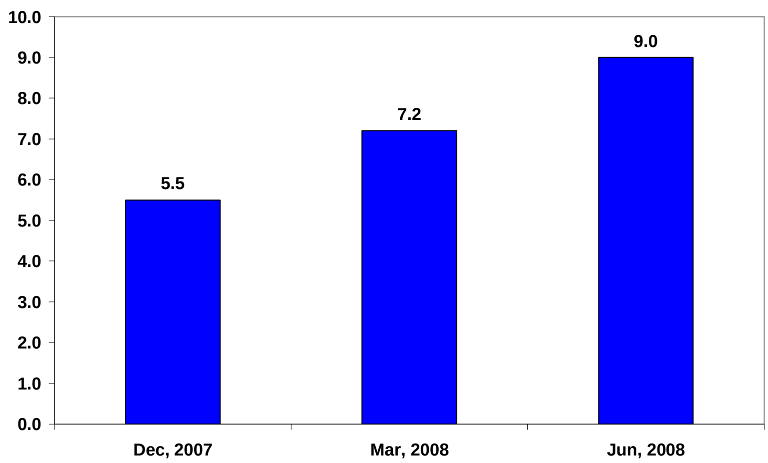
In the United States and Canada, according to September 2008 data from the ACA – Angel Capital Association[17] that encompasses 165 angel investor groups with a total of more than 7,000 members, angel investors invest in approximately 700 new companies per year and currently possess a portfolio of more than 5,000 private companies.

The United Kingdom is the most mature country in Europe in terms of angel investment, with 34 groups and more than 5,000 investors. According to data from EBAN - European Business Angel Network, Europe has 297 groups with more than 16,000 angel investors.[18]

Currently, there are four angel investor groups active in Brazil: Bahia Anjos (BA), Floripa Angels (SC), Gávea Angels (RJ) – the oldest, created in 2002 – and the São Paulo Anjos (SP), with a total of 62 members, 19 support professionals and estimated capital of USD9 million as of June 30, 2008.

Some new initiatives are appearing in the country in the form of public policy to enable the development of angel investor networks. FINEP – Financiadora de Estudos e Projetos (the Financier of Studies and Projects), and ABDI – Agência Brasileira de Desenvolvimento Industria (the Brazilian Agency of Industrial Development) have recently been discussing and developing ways to support the federal government in promoting this industry in Brazil.

Committed Capital[19] in Angel Investor Groups (USD million)



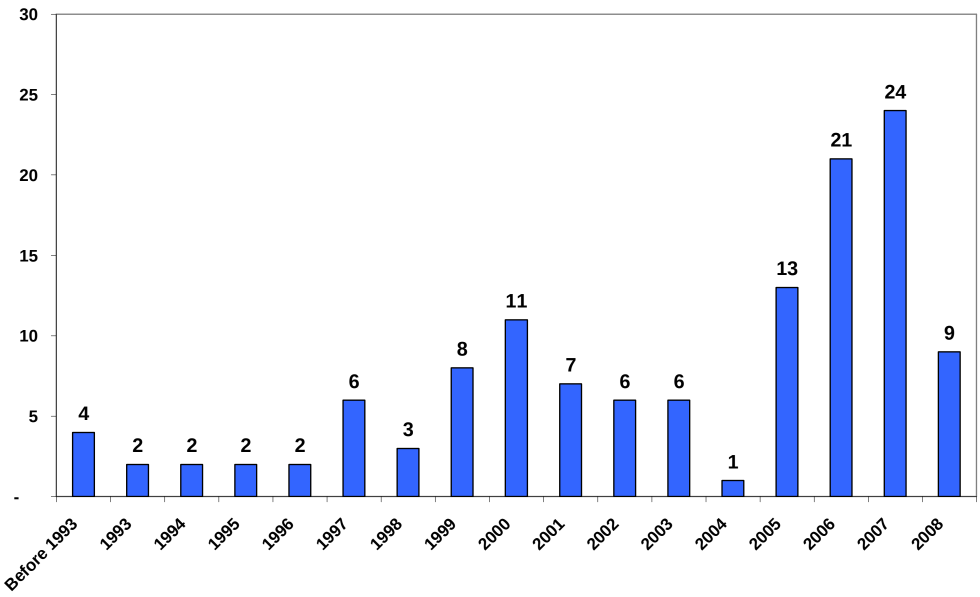
The typical value of investments made by angel investors in Brazil range from USD 50,000 to USD 500,000 per company, and can reach up to USD 1 million. As of June 30, 2008, only four companies were in the angel investor groups portfolios[20].

[17] www.angelcapitalassociation.org.
[18] EBAN Statistics Compendium 2008. www.eban.org.
[19] Angel investor group estimates, because there is no formal commitment of capital on the part of its their members.
[20] By angel investor group portfolio we mean the group of companies which received investments for its members through angel group investor meetings.

3.2. THE INTERNATIONALIZATION OF THE BRAZILIAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

The maturation and consolidation of the Brazilian Private Equity and Venture Capital industry are indicated by the fact that 21 PE/VC organizations have at least ten years of experience in the country. They are responsible for managing about 30% of the industry's committed capital. Of the 67 PE/VC organizations that began operating between the beginning of 2005 and June 2008, 46 of them are Brazilian in origin.

Starting Year of the Operations in Brazil
(Number of PE/VC Organizations)

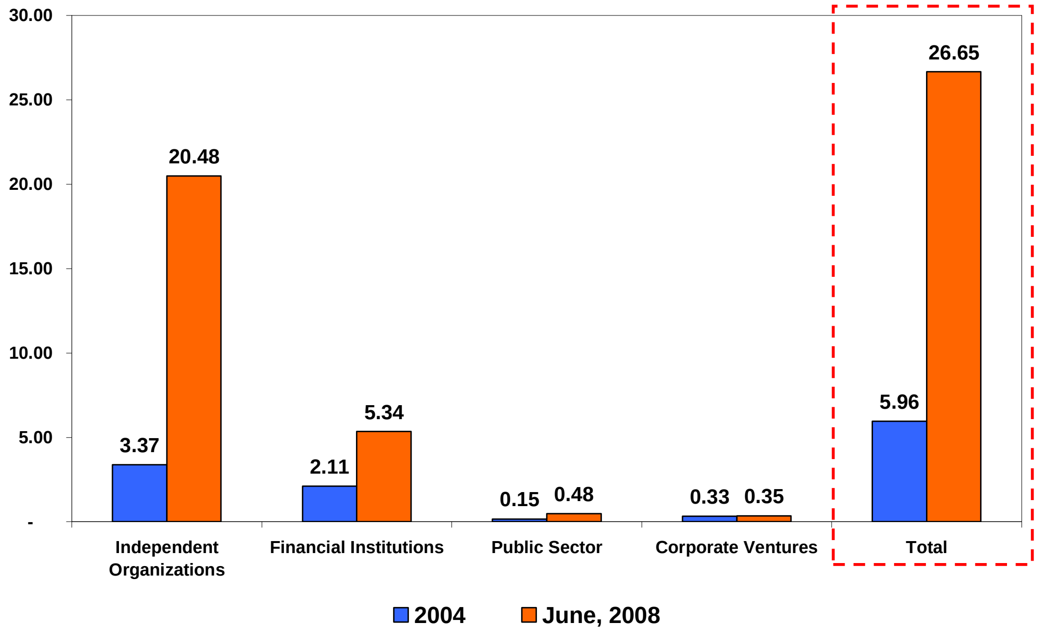


	Before 1993	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
Committed Capital (USD Billion)	0.57	2.96	1.31	0.23	0.20	1.96	0.44	1.60	3.53	2.07	0.15	0.61	1.99	1.79	5.20	1.91	0.15	26.65
Quantity of Investment Vehicles *	6	7	4	5	2	12	3	17	21	10	6	12	2	15	27	26	6	181

** Total quantity of vehicles under management by the starting year of the PE/VC organizations operations in Brazil as of June 2008 (e.g. the PE/VC organizations that started their operations in 2007 have 26 investments vehicles).*

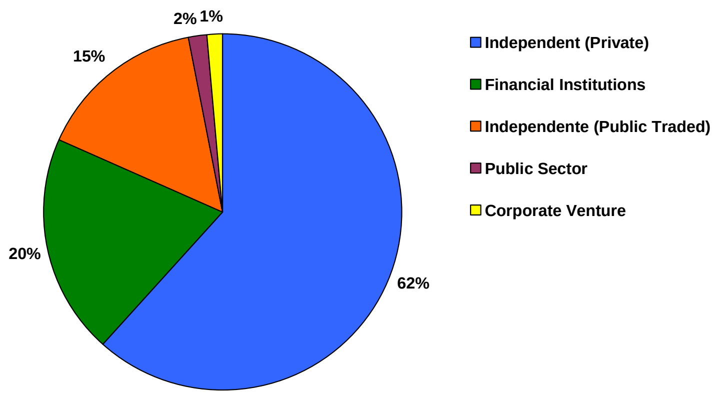
In June 2008, of the 127 PE/VC organizations in Brazil, 107 (79%) were independent – 7 of which are publicly traded companies, 15 (12%) with ties to financial institutions, 3 (2%) from the public sector, two (2%) industrial groups, and two (2%) corporate ventures. While there was a reduction in the number of PE/VC organizations tied to financial institutions from 20 to 15, the number of independent managers presented a significant increase, going from 50 in 2004 to 107 PE/VC organizations.

Committed Capital by PE/VC Organization Category (USD billion)



From the distribution of committed capital, it is possible to observe the greater participation of independent PE/VC organizations (private and public traded) followed by those tied to financial institutions. The public sector is not greatly represented in terms of PE/VC organizations, and as consequence in terms of committed capital, it does have an important role as investors in investment vehicles managed by private PE/VC organizations (see item 3.7 for more information).

Committed Capital by PE/VC Organization Category (as of June 30, 2008)



The 91 PE/VC organizations that are Brazilian in origin represent the majority of the industry as of June 2008 and correspond to 72% of the total as opposed to 53 (75% of the total) in 2004. PE/VC organizations from the United States represent the second largest contingent (17), followed by the Europeans (9), and those with headquarters in Bermuda (3).[21] It is important to note the substantial growth of activity by international PE/VC organizations in Brazil through Global, Regional (Latin American, Mercosur, and South American), and Emerging Markets investment vehicles.

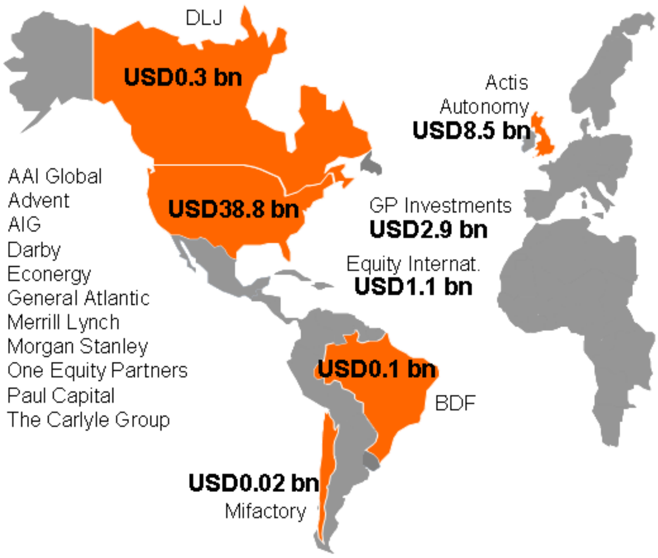
[21] For example, GP Investments and the Tarpon Investment Group, with USD 2.738 billion and USD 765 million committed capital respectively, have their headquarters in Bermuda.

PE/VC Organizations with Global, Regional, and Emerging Market Investment Vehicles Operating in Brazil as of June 30, 2008 (USD million)

PE/VC Organizations	Country of Origin *	Category	Scope of Investment Vehicles Operating in Brazil	Committed Capital All Vehicles Operating in Brazil	Committed Capital Allocated in Brazil **
AAI Global Equity	United States	Independent (Private Company)	Regional (Latin America)	100	n/a
Actis LLP	United Kingdom	Independent (Private Company)	Emerging Markets	450	n/a
Advent International	United States	Independent (Private Company)	Brazil and Regional (Latin America)	2,869	1,520
AIG Private Equity	United States	Financial Institution	Regional (Latin America) and Emerging Markets	2,270	930
Autonomy Investments	United Kingdom	Independent (Private Company)	Global	3,000	1,000
BDF Management	Brazil	Independent (Private Company)	Regional (Latin America)	100	n/a
Darby Overseas Investments	United States	Financial Institution	Regional (Latin America) and Emerging Markets	546	199
DLJ South American Partners	Canada	Independent (Private)	Regional (Latin America)	300	240
Econergy Brasil	United States	Independent (Publicly Traded)	Regional (Latin America)	25	5
Equity International	Cayman Islands	Independent (Private Company)	Global	1,098	n/a
General Atlantic	United States	Independent (Private Company)	Global	8,000	n/a
GP Investments	Bermuda	Independent (Publicly Traded)	Brazil and Regional (Latin America)	2,920	2,738
Merrill Lynch Global Private Equity	United States	Financial Institution	Global	n/a	n/a
Mifactory Venture Capital	Chile	Independent (Private Company)	Regional (Latin America)	20	n/a
Morgan Stanley Real Estate Investing	United States	Financial Institution	Global	15,300	n/a
One Equity Partners / Pacific Investments	United States	Independent (Private Company)	Global	8,000	n/a
Paul Capital	United States	Independent (Private Company)	Global	1,650	n/a
The Carlyle Group	United States	Independent (Private Company)	Regional (South America and Latin America)	n/a	n/a
TOTAL				**46,648 *****	

** PE/VC organization registration/legal headquarters.*
*** PE/VC organization's best estimate of committed capital allocated in Brazil.*
**** Sum of just those values that were permitted to be disclosed.*
OBS: n/a – not available by request of the PE/VC organization. The values provided confidentially by the PE/VC organizations were, however, included in the total amount in the Evolution of Committed Capital, Section 3.1.

Origin of PE/VC organizations that invest in Brazil through Global, Regional, and Emerging Market investment vehicles.

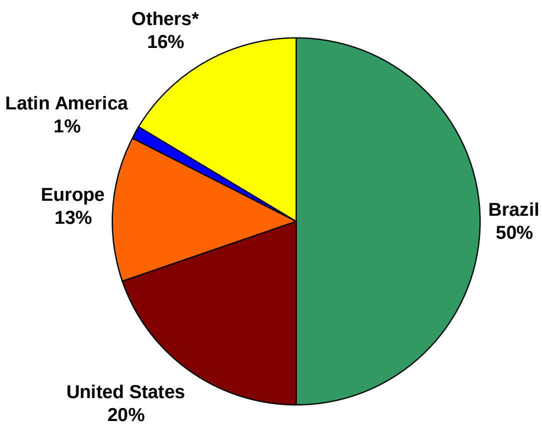


Origin of PE/VC organizations that invest in Brazil through investment vehicles exclusively dedicated to Brazil.

- Alothon (USA)
- ABN AMRO Real (SPA)
- Banif (POR)
- Cartica Capital (USA)
- DEG-KFW Banking (DEU)
- ES Capital (POR)
- Franklin Templeton (USA)
- Intel Capital (USA)
- Itacaré (Vir)
- Marathon (USA)
- Monashees (USA)
- Santander (SPA)
- Spinnaker (USA)
- Standard Bank (SAF)
- Tarpon (BER)
- Timber Capital (BER)
- Vita Bioenergia (SUI)

Nevertheless, Brazilian PE/VC organizations account for 50% of the industry's committed capital. There was also a significant increase in the relative participation of European PE/VC organizations and those with headquarters offshore, from 1.6% to 3.4% respectively in 2004 to 13% and 16% in June 2008.

Committed Capital by PE/VC Organization Origin (%)



** Includes Bermuda, the Cayman Islands, the Virgin Islands, and South Africa*
OBS: PE/VC organization origin means where it is registered and has its legal headquarters.

This confirms that there is a strong concentration of resources (52.4%) in the PE/VC organizations with the ten largest amounts of committed capital in Brazil as of June 30, 2008. The PE/VC organizations with the twenty largest amounts of committed capital are responsible for 75% of the committed capital in the Brazilian Private Equity and Venture Capital industry.

PE/VC organizations with the Ten Largest Volumes of Committed Capital Allocated in Brazil as of June 30, 2008 (USD million)

PE/VC Organization *	Country of Origin**	Category	Scope of Investment Vehicles Operating in Brazil	Committed Capital Allocated in Brazil ***	Committed Capital as a Percentage of Industry Total
GP Investments	Bermuda	Independent (Publicly Traded)	Brazil and Regional (Latin America)	2,738	10.3%
Angra Partners	Brazil	Independent (Private Company)	Brazil	1,985	7.4%
UBS Pactual	Brazil	Financial Institution	Brazil	1,736	6.5%
Advent International	United States	Independent (Private Company)	Brazil and Regional (Latin America)	1,520	5.7%
Pátria Investimentos	Brazil	Independent (Private Company)	Brazil	1,305	4.9%
Gávea Investimentos	Brazil	Independent (Private Company)	Brazil	1,062	4.0%
Autonomy Investments	United Kingdom	Independent (Private Company)	Global	1,000	3.8%
Prosperitas Investimentos	Brazil	Independent (Private Company)	Brazil	934	3.5%
AIG Private Equity	United States	Financial Institution	Regional (Latin America) and Emerging Markets	930	3.5%
Tarpon Investment Group	Bermuda	Independent (Publicly Traded)	Brazil	765	2.9%
TOTAL				**13,975**	**52.4%**

** PE/VC organizations that authorized the publication of their estimated data for Brazil.*
*** PE/VC organization's registration/legal headquarters*
**** For vehicles not limited to Brazil (i.e. Emerging Markets, Global and/or Regional – Latin American, Mercosur, or South American) this represents the PE/VC organization's best estimate of committed capital allocated in Brazil.*

In the Private Equity category, the PE/VC organizations that manage 8 of the 10 largest volumes of committed capital allocated in Brazil correspond to USD 11.2 billion (42% of the total). It is important to note that the majority of these organizations began their operations before 2005
.

Private Equity: 10 Largest Volumes of Committed Capital Allocated in Brazil as of June 30, 2008 (USD million)

PE/VC Organizations *	Country of Origin **	Beginning of Operations in Brazil	Committed Capital Allocated in Brazil ***	Team	Number of Vehicles	Companies in Portfolio
GP Investments	Bermuda	1993	2,738	57	6	15
Angra Partners	Brazil	2004	1,985	21	2	4
UBS Pactual	Brazil	2001	1,736	25	4	10
Advent International	United States	1997	1,520	18	3	6
Pátria Investimentos	Brazil	1994	1,305	38	3	6
AIG Private Equity	United States	2000	930	9	4	4
Banif Private Equity	Portugal	2006	602	14	2	0
NSG Capital	Brazil	2007	391	14	2	1
TOTAL			**11,207**	**196**	**26**	**46**

** Actis LLP and Merrill Lynch Global Private Equity: committed capital not disclosed per request of the PE/VC organization.*
*** PE/VC organization's registration/legal headquarters.*
**** For vehicles not limited to Brazil (i.e. Emerging Markets, Global and/or Regional – Latin American, Mercosur, or South American) this represents the PE/VC organization's best estimate of committed capital allocated in Brazil.*

In the Balanced category, which includes PE/VC organizations that have vehicles that operate in more than one type or stage, nine of the ten largest volumes of committed capital allocated in Brazil total USD 6.1 billion (23% of the total). This category possesses an important concentration of companies in portfolio (102), especially BNDESPar which represents approximately 40% of the category (40).

Balanced (PE/VC, Mezzanine and/or PIPE): 10 Largest Volumes of Committed Capital Allocated in Brazil as of June 30, 2008 (USD million)

PE/VC organizations *	Country of Origin **	Beginning of Operations in Brazil	Committed Capital Allocated in Brazil ***	Team	Number of Vehicles	Companies in Portfolio
Gávea Investimentos	Brazil	2006	1,062	28	2	18
Autonomy	United Kingdom	2006	1,000	8	1	7
Prosperitas	Brazil	2006	934	25	3	15
Tarpon Investment	Bermuda	2005	765	18	1	5
ABN AMRO Real	Spain	1999	566	6	1	5
BNDESPAR	Brazil	1988	482	54	1	40
BRZ Investimentos	Brazil	2003	448	9	3	7
Dynamo	Brazil	1999	421	10	4	3
AG Angra	Brazil	2006	420	12	1	2
TOTAL			**6,098**	**170**	**17**	**102**

** General Atlantic: committed capital not divulged per request of the PE/VC organization.*
*** PE/VC organization's registration/legal headquarters.*
**** For vehicles not limited to Brazil (i.e. Emerging Markets, Global and/or Regional – Latin American, Mercosur, or South American) this represents the PE/VC organization's best estimate of committed capital allocated in Brazil.*

One of the interesting characteristics of the Venture Capital – Early Stage category is the concentration of PE/VC organizations that began their operations in the country before 2004. Even though these PE/VC organizations represent only 3% of the total committed capital in the industry (USD0.8 billion), it is important to note that the number of portfolio companies approaches that of the Balanced category and represents almost double that of the Private Equity category.

Venture Capital – Early Stage: 10 Largest Volumes of Committed Capital Allocated in Brazil as of June 30, 2008 (USD million)

PE/VC organizations	Country of Origin *	Beginning of Operations in Brazil	Committed Capital Allocated in Brazil **	Team	Number of Vehicles	Companies in Portfolio
VNN	Brazil	2000	300	19	1	8
FIR Capital Partners	Brazil	1999	106	32	5	18
DGF Investimentos	Brazil	2001	74	18	3	9
JB Partners	Brazil	2003	68	18	2	5
Franchising Ventures	Brazil	2007	60	7	1	9
Intel Capital	United States	1999	50	7	2	8
CRP	Brazil	1981	41	16	3	15
Marambaia Capital	Brazil	2002	40	9	1	5
Axial Participações	Brazil	2000	35	4	1	5
Centerless	Brazil	2002	25	8	1	6
TOTAL			**779**	**138**	**20**	**88**

** PE/VC organization's registration/legal headquarters.*
*** For vehicles not limited to Brazil (i.e. Emerging Markets, Global and/or Regional – Latin American, Mercosur, or South American) this represents the PE/VC organization's best estimate of committed capital allocated in Brazil.*

The Venture Capital – Seed category is distinguished by the fact that most of its PE/VC organizations began their operations from 2005 on. This segment of the Brazilian PE/VC industry value chain has been gaining importance over the past few years due to public policies and government support aimed at sustaining industry development over the long term. Eight of the ten PE/VC organizations with the largest volumes of committed capital total just USD 0.15 billion (0.6%).

Venture Capital – Seed: 10 Largest Volumes of Committed Capital Allocated in Brazil as of June 30, 2008 (USD million)

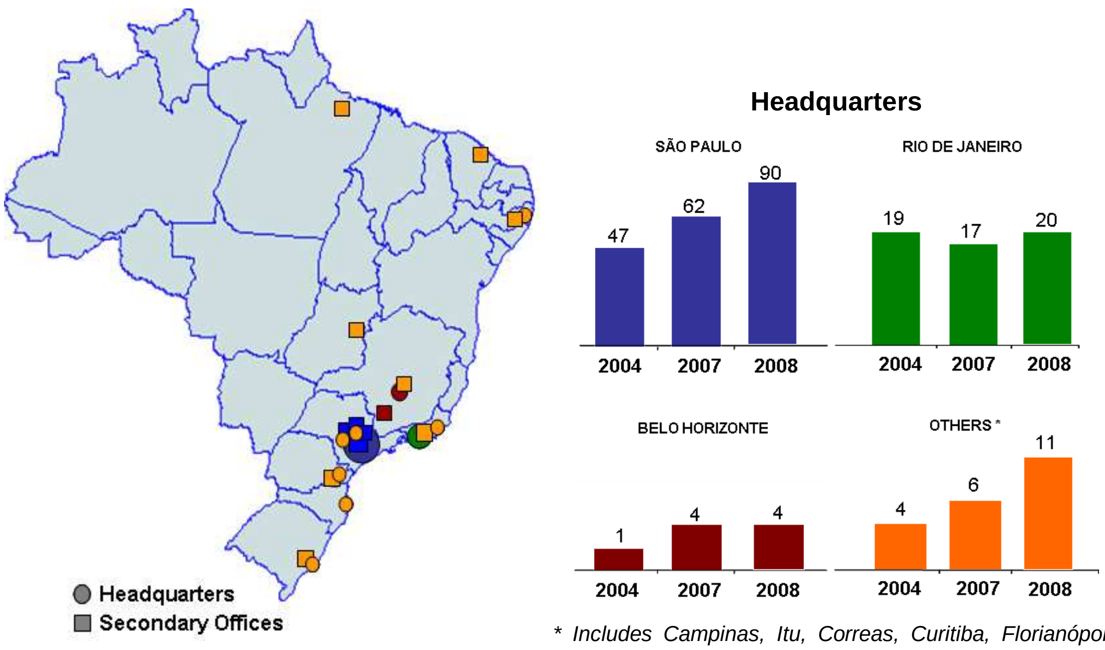
PE/VC organizations *	Country of Origin **	Beginning of Operations in Brazil	Committed Capital Allocated in Brazil ***	Team	Number of Vehicles	Companies in Portfolio
Antera	Brazil	2005	60	17	1	5
Invest Tech	Brazil	2003	35	11	2	3
DLM Confrapar	Brazil	2007	12	10	1	0
Ace Venture Capital	Brazil	2005	10	7	1	1
Emerging Capital	Brazil	2007	10	4	2	3
GC | Capital	Brazil	2007	10	4	1	5
Estufa Investimentos	Brazil	2006	7	5	1	0
Econergy Brasil	United States	2001	5	8	1	3
TOTAL			**149**	**56**	**10**	**20**

** Mifactory and Monashees Capital: committed capital not divulged per request of the PE/VC organizations.*
*** PE/VC organization's registration/legal headquarters.*
**** For vehicles not limited to Brazil (i.e. Emerging Markets, Global, Regional Funds – Latin American, Mercosur, or South American) this represents the PE/VC organization's best estimate of committed capital allocated in Brazil.*

3.3. GEOGRAPHIC DISTRIBUTION

The headquarters of the PE/VC organizations are distributed throughout six states, while two of the PE/VC organizations do not have a physical presence in Brazil. To support their operations, 29 PE/VC organizations have 50 secondary offices distributed throughout 15 cities (Rio de Janeiro, São Paulo, Belo Horizonte, Campinas, Florianópolis, Fortaleza, Belém, Brasília, Recife, Porto Alegre, Curitiba, Limeira, Botucatu, Piracicaba, and Santa Rica do Sapucaí)

PE/VC Organizations' Geographical Distribution



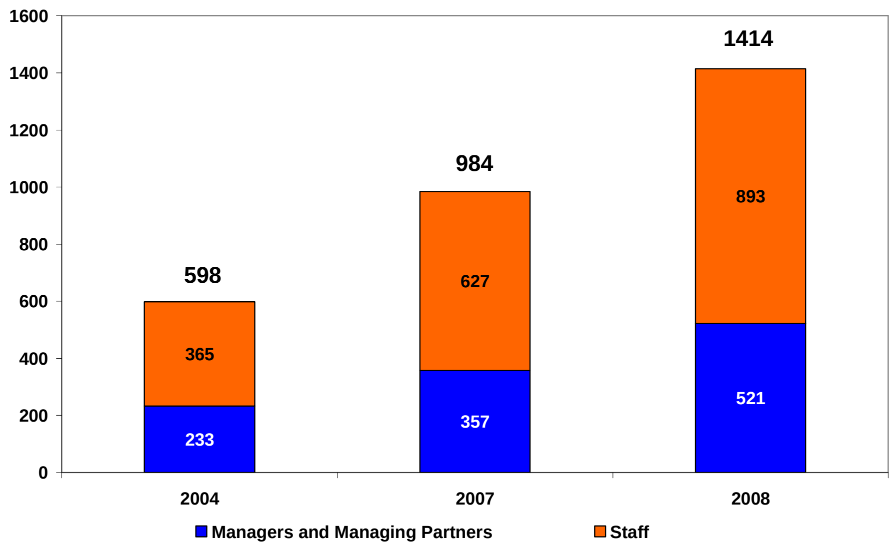
** Includes Campinas, Itu, Correas, Curitiba, Florianópolis and Porto Alegre, besides the two PE/VC organizations without an office in Brazil*

3.4. HUMAN RESOURCES

Supporting the strong growth of the industry, in terms of the entry of new PE/VC organizations and the volume of committed capital, is the growth in the number of professionals which has almost doubled in four years, going from 598 to 1,414 people. The proportion of staff professionals in relation to the number of managers and managing partners[22] remained on average practically constant (1.7 times greater).

[22] *Managers and managing partners: professionals from the PE/VC organizations that manage at least one of the investment decision processes: fundraising, origination and business selection, negotiation and structuring of investments, monitoring of portfolio companies and exiting.*

Evolution of the PE/VC Industry Human Resources
(Number of Professionals)



The Brazilian Private Equity and Venture Capital industry continues to demonstrate a high quantity of intellectual capital, given that at least 74% of its managers and managing partners have a post-graduate degree. The industry numbers indicate that since 2005 the PE/VC organizations have absorbed a total of 140 professionals with Masters/MBA/LLM degrees which represents an almost 60% increase from the total in December 2004.

Degree	2004		2008	
	%	% Accum.	%	% Accum.
PhD	3%	3%	4%	4%
Master's/MBA/LLM	55%	59%	57%	61%
Specialization	15%	74%	13%	74%
College	25%	98%	26%	100%
No College	2%	100%	0%	100%
TOTAL	100%	100%	100%	100%

OBS: In 2004 231 of 233 (99%) and in 2008 473 de 512 (91%) managers and managing partners specified their level of education.

3.5. LEGAL STRUCTURE

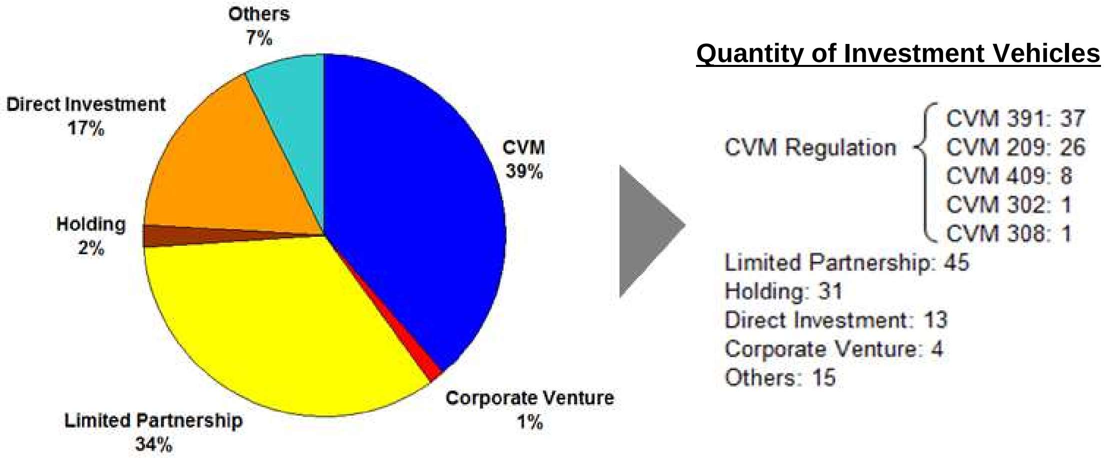
Holding companies, even though they constitute 24% of the total of all investment vehicles in the industry (30), represent only 2% of the total committed capital. The large majority of these vehicles are used by PE/VC organizations with average committed capital of USD8 million[23] that invest in small and medium-sized enterprises (SMEs), most notably in Venture Capital operations.

It is important to highlight that some vehicles constituted as limited partnerships are managed by PE/VC organizations that are registered and have their legal headquarters in Brazil, and that some PE/VC organizations with Brazilian partners are registered and have their legal headquarters offshore (ex. Bermuda and the Cayman Islands). This may be explained by various factors such as the greater facility in structuring the capital commitment and the investments from the ample majority of its investors perspective, in addition to a need to

[23] This excludes two vehicles that do not fit the typical "pattern" which possess committed capital of USD 67 million and USD 250 million.

mitigate some risks in terms of law enforcement that exist in Brazil. Limited partnerships make up 25% of the vehicles operating in Brazil, and represent 34% of the committed capital in the industry.

Committed Capital by Legal Structure of Vehicles as of June 30, 2008



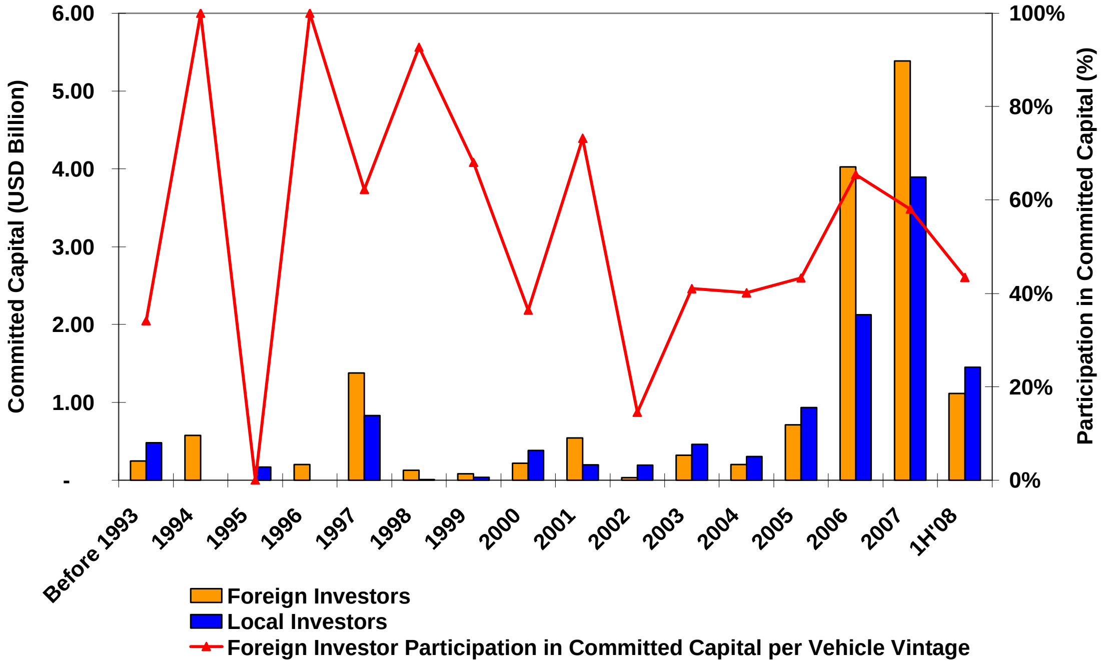
Nonetheless, even though it represents a significant portion of all committed capital in the industry, the limited partnership structure is considerably less significant than it was in 2004, declining from 62% to 34%. In contrast, the vehicles created under the CVM regulation went from 23% in 2004 to 39% of capital commitments by June 30, 2008 and represented 40% of all vehicles. This legal structure currently predominates in the industry, which shows the success of the institutional model created by the CVM in 2003 (CVM 391 – FIPs).

3.6. INVESTORS

The question of legal structure becomes even more important when we observe the participation of foreign investors in the industry. In June 2008, foreign investors represented 57% of all capital commitments (USD 15.2 billion).

After have reduced their participation in new capital commitments between 1997 and 2002, foreign investors returned between 2003 and 2006, especially in 2006 when they reached 65% of all new capital commitments of the Brazilian industry in that year.

Foreign Investor Participation in Committed Capital per Vehicle Vintage as of June 30, 2008



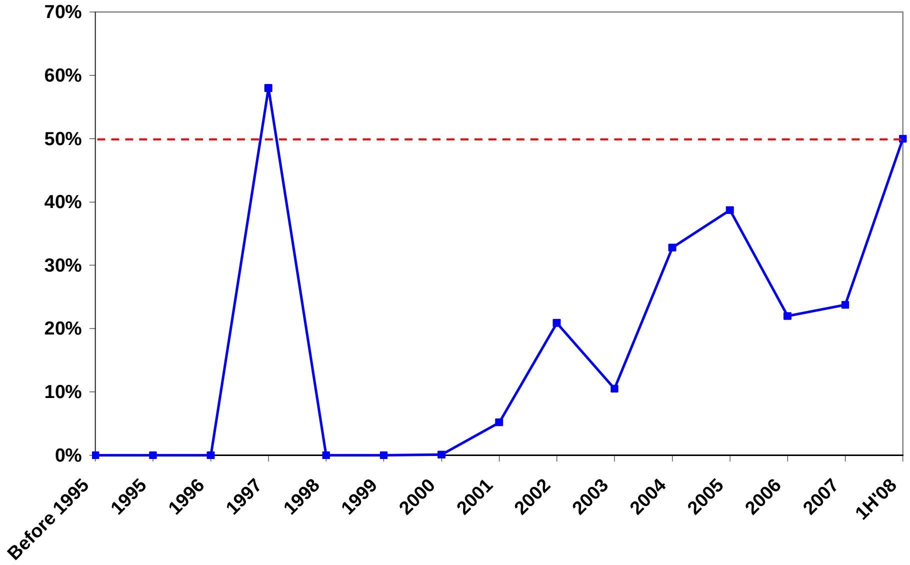
OBS: Value of committed capital as of June 30, 2008 of each investment vehicle vintage. The total of all years corresponds to USD 26.65 billion and the total of foreign committed capital reached USD 15.2 billion (57%).

The return of the pension funds investments in Private Equity and Venture Capital is of great interest. The relative participation of pension funds in new fundraising reached 50%, close to the level of 58% reached during the privatization era. With this, pension fund participation corresponds to 27% of the total stock of committed capital as of June 30, 2008, with the domestic pension funds corresponding to the largest portion (24%) at this point.

According to the data from EVCA, pension funds are one of the largest investors in PE/VC accounting for 23% of the resources in PE/VC over the period from 1999 to 2005[24], having reached this average between 2003 and 2007[25]. In the United States, according to data from the NVCA[26], pension funds have a greater presence in PE/VC investments and in 2001 represented 50% of all investments in Venture Capital.

[24] Source: EVCA Yearbook produced by EVCA/Thomson Venture Economics and PriceWaterhouseCoopers. Other relevant investors over this period were: banks (22%), funds of funds (12%), insurers (12%) and government and public companies (8%).
[25] Source: EVCA Key Facts and Figures. Other relevant investors over this period were: banks (16%), funds of funds (15%), insurers (10%) and government and public companies (8%). For more information see: www.evca.eu
[26] Source: NVCA The Venture Capital Industry. 2002. For more information see: www.nvca.eu

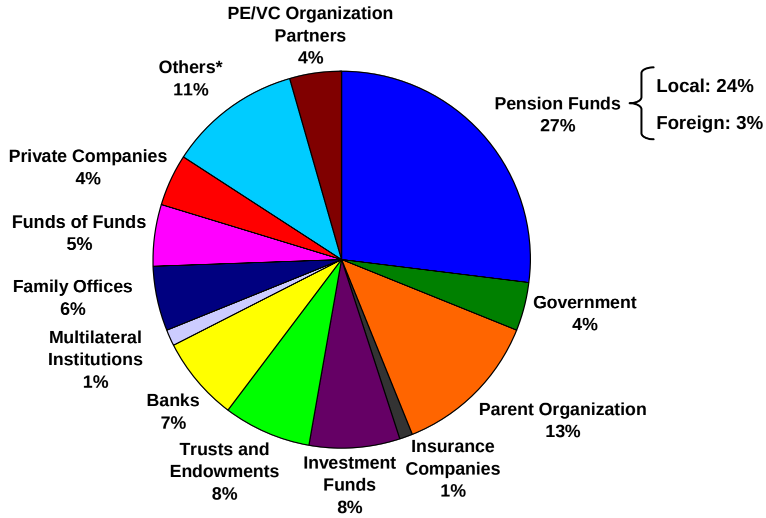
Pension Fund Participation in Committed Capital per Investment Vehicle Vintage as of June 30, 2008



OBS: Considers those vehicles that divulged their committed capital and the percentage of investor types (sample size: 112 vehicles with committed capital of USD18.1 billion).

Note that there is an important diversification in terms of investor types in the Brazilian Private Equity and Venture Capital industry, which consist of the most stable sources of financing over the long term.

Distribution of Total Committed Capital (USD26.65 billion) per Investor Type as of June 30, 2008

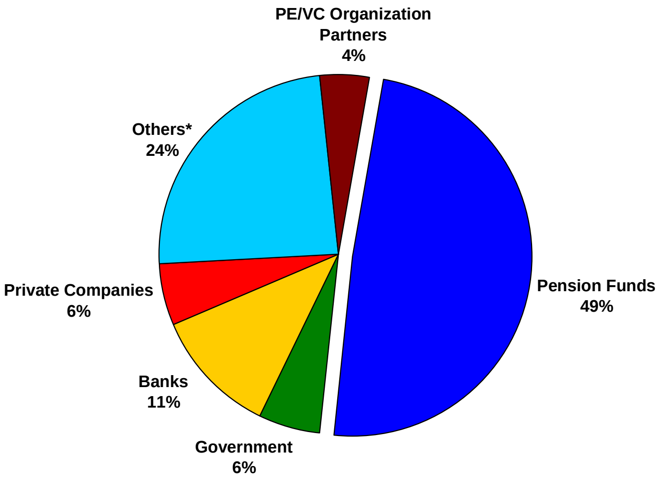


** Includes individuals and other types of investors not listed under the other options.*

The volume of capital commitments in Private Equity and Venture Capital by pension funds amounts USD 7.2 billion in Brazil. As of June 2008, there were a total of 396 pension funds operating in Brazil with a total of BRL 451 billion in investments[27], with the ten largest entities representing 62% of this total. It is estimated that 20 to 30 pension funds possess capital commitments in PE/VC that total BRL 10.6 billion[28] (USD 6.4 billion), the equivalent of an average of 3.0% of their entire investment portfolios and 0.4% of GDP[29] .

Approximately 80% of the pension funds that invest in Brazilian PE/VC are domestic in origin and use the CVM legal structure for their investments in Private Equity and Venture Capital. In this way, the increase in the relative participation of CVM vehicles in proportion to the total of capital commitments can be, in part, explained by Brazilian pension fund investments.

Distribution of Committed Capital for CVM Vehicles by Investment Type



OBS: Vehicles that informed their committed capital and also the percentage of investor types (sample size: 112 vehicles with committed capital of USD 18.1 billion).

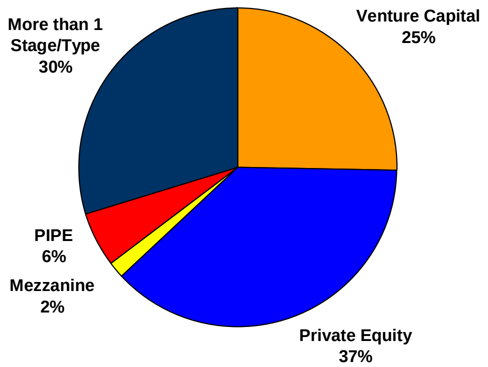
** Considers investment funds (0.1%), trusts and endowments (0.2%), other PE/VC organizations (0.5%), parent organizations (0.5%), funds of funds (0.9%), family offices (1.5%) and others (20%) that include individuals and other types of investors not listed under the other options.*

[27] Source: June 2008 Consolidated Statistics of ABRAPP (Brazilian Association of Private Pension Funds)
[28] Considers an average dollar closing value of BRL 1.66 for the period from April to June 2008. Source: Brazilian Central Bank.
[29] Considers annualized GDP based on First Half of 2008.

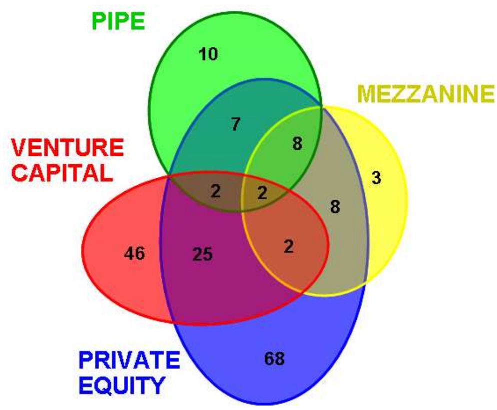
3.7. INVESTMENT THESIS: STAGE, TYPE AND INDUSTRY FOCUS

Within the 181 investment vehicles that currently exist in the Brazilian market, 46 work exclusively with Venture Capital, 68 with Private Equity, 3 with Mezzanine investments and 10 with PIPE investments.[30]

Vehicle Distribution by Stage/Type

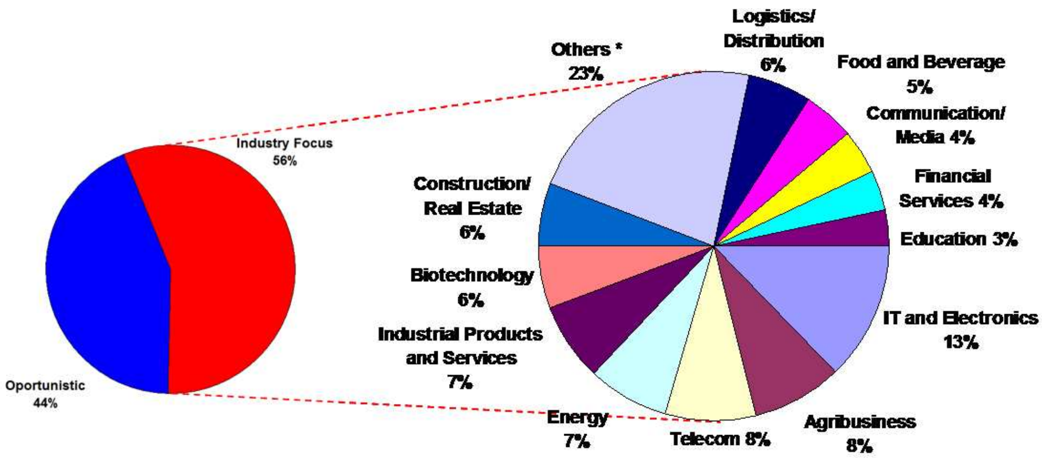


Venn Diagram of Investment Vehicle Activity



Almost half of the vehicles currently active in Brazil do not possess a defined industry focus, that is, they have an opportunistic approach without industry focus (79 vehicles). The other vehicles (102) look for investments with a focus on one or more industries, predominantly IT and Electronics (54), Agribusiness (35), Telecommunications (35) and Energy (31) within the macro-sectors listed.[31]

Vehicle Industry Focus



** Encompasses 14 sectors with less than 15 vehicles per industry.*
OBS: Considers the 181 vehicles active as of June 30, 2008. Note that a vehicle can invest in more than one industry (average of 4.1 industries per vehicle)

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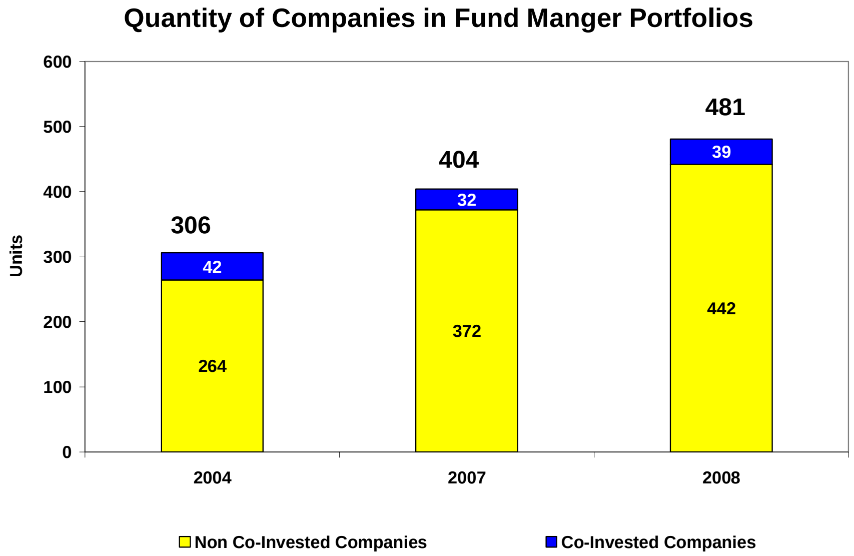
[30] Venture Capital includes Seed, Startup, and Early Stage, while Private Equity includes Expansion, Later Stage, and Buyout.
[31] IT and Electronics, Agribusiness, Telecommunications, Energy, Biotechnology, Construction/Real Estate, Logistics/Distribution, Food and Beverages, Communication/Media, Financial Services, Education, Transportation, Medicine and Beauty, Sanitation, Retail, Electronic Auctions, Entertainment/Travel, Household Appliances, Textiles, Call Centers, Security Equipment, Holding Companies, Incubator, Mining, Shoes and Industrial Products and Services (Steel, Machinery and Equipment, Base Industry, Industrial Automation, Automotive, Chemical, Industrial Laundry, Industrial Viewing Systems, Sterilization, Engineering, Furniture, Packaging, Water Treatment, Distribution of Maintenance Materials and Ceramics.

It should also be noted that the vehicles that work with Venture Capital possess a greater focus in certain technological industries (e.g. IT and Electronics, Telecommunications, and Biotechnology) while the vehicles that work with Private Equity, Mezzanine investments and PIPE investments have a more opportunistic approach.

3.8. PORTFOLIO COMPANIES

In June 2008, there were 481 companies in the portfolio of the PE/VC organizations, representing an increase of 19% in relation to 2007 (404 companies) and of 57% in relation to 2004 (306 companies).

The amount of co-investments remained low representing just 39 of these 481 companies in portfolio (8%), since the majority of these co-investments occur between just two of these PE/VC organizations. Co-investments involving 3 or 4 PE/VC organizations represent a minority (6 of these 39 companies) in business occurring in the Brazilian Private Equity and Venture Capital industry. One of the probable causes of this scenario is the record fundraising volume over the last few years, which is associated with the difficulty in finding good projects in the country in a short period.



The great diversity of economic sectors constitutes an important aspect of the business model of the Private Equity and Venture Capital industry. The 484 portfolio companies cover 26 industries and more than 40 sub-industries.

Portfolio Company Industries

Industries	2004		2008		Growth Rate 2004 to 2008
	Units	%	Units	%	
IT and Electronic	92	30%	108	22%	17%
Industrial Products and Services	41	13%	63	13%	54%
Construction/Real Estage	9	3%	60	12%	567%
Communication/Media	7	2%	32	7%	357%
Energy	7	2%	29	6%	314%
Agibusiness	9	3%	21	4%	133%
Financial Services	10	3%	20	4%	100%
Biotechnology	10	3%	19	4%	90%
Retail	21	7%	19	4%	-10%
Food and Beverage	12	4%	17	4%	42%
Medicine and Beauty	8	3%	15	3%	88%
Telecommunications	28	9%	13	3%	-54%
Transportation	11	4%	13	3%	18%
Logistics/Distribution	7	2%	12	2%	71%
Education	3	1%	9	2%	200%
Others*	31	10%	31	6%	0%
TOTAL	306	100%	481	100%	57%

* *Entertainment/tourism, sanitation, mining, textiles, holding companies, footwear, security equipment, company incubators, call centers and appliances.*

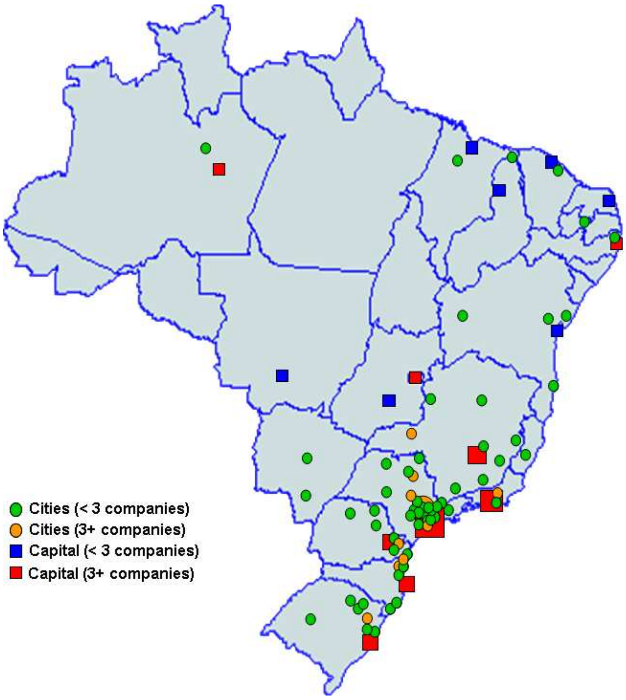
The IT and Electronics industry continues to constitute the largest portion of the companies in the PE/VC organizations' portfolios (22% of the total), though in the last four years it has decreased in terms of its relative participation (it represented 33% in 2004), along with the considerable number of divestitures in this sector from 2005 to June 30, 2008.

One of the sectors that has been most prominent over the last few years has been Construction/Real Estate: it raised its relative participation from 3% to 12% having been encouraged by lower interest rates, easy government credit and the growing economy. Today this industry is the third largest participant in terms of PE/VC organizations' portfolios.

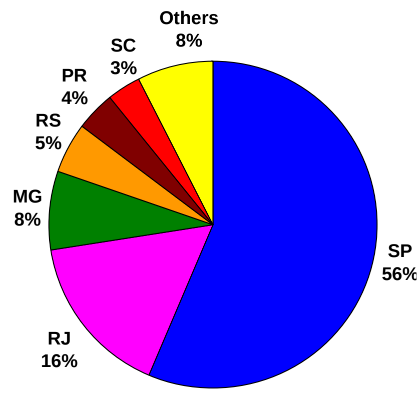
Even though it represents a small portion of the total portfolio, investments in companies in the education industry are among those that have experienced the greatest growth between 2004 and 2008 (+200%) together with the Energy and Agribusiness industries (+314% and +133% respectively) and Communications/Media (+357%).

Over the last four years, the proportion of portfolio companies with headquarters in the Southeast has grown significantly, going from 66% in 2004 to 80% in 2008. Companies in the South have reduced their relative participation from 26% to 12% and the other regions together have maintained their proportion of 8% of the total of portfolio companies.

Geographic Distribution of Portfolio Companies as of June 30, 2008



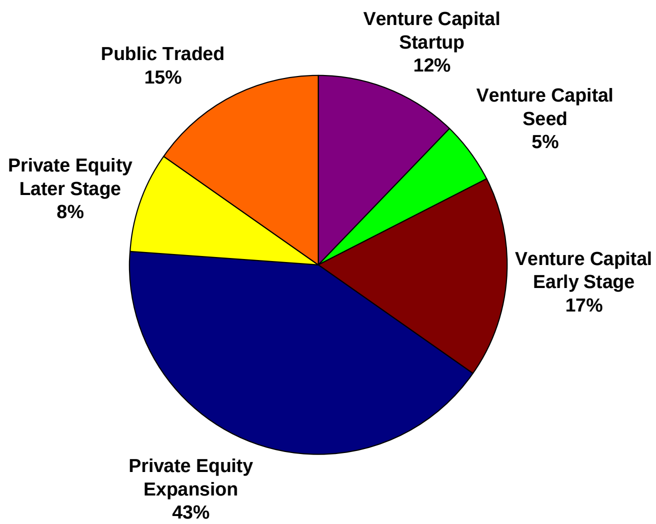
Distribution by State



OBS: Considers 461 companies that reported the city where their headquarters is located (out of a total of 481 companies).

The State of São Paulo has distinguished itself in the expansion of the Brazilian Private Equity and Venture Capital industry, not only by the fact that it contains many of the PE/VC organizations' headquarters, but also in terms of portfolio companies. Its relative proportion of portfolio companies increased from 45% in 2004 to 56% as of June 2008.

Portfolio Company Stages as of June 30, 2008



OBS: Considers the sample of 462 companies that reported their current stage of development (out of a total of 481 companies).

A total of 51% of the industry's portfolio companies are more mature companies, 43% are Private Equity – Expansion and 8% are Private – Later Stage, but there also is a considerable volume of business in Venture Capital (34%) with the greatest emphasis on the Early Stage (17%). This denotes an important concentration on the initial and intermediate stages of entrepreneurial development guaranteeing the consolidation of the links that permit sustained industry growth over the long term.

3.9. INVESTMENTS AND EXITS

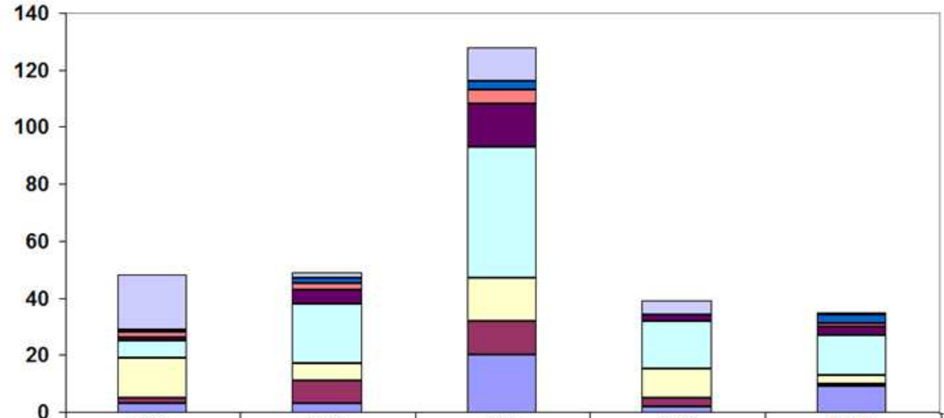
As of June 30, 2008 the Brazilian Private Equity and Venture Capital industry had around USD11.5 billion of committed capital available for investment, of which approximately USD9.5 billion came from vehicles that were created since 2005.

It is estimated that PE/VC organizations invested USD11 billion[32] between January 2005 and June 2008, which is equivalent to around 50% of all committed capital raised during this period. Total investment in Private Equity and Venture Capital in Brazil during the first half of 2008 is estimated at USD 2.4 billion[33], equivalent to 0.3% of GDP[34], as opposed to an average of 1.3% which is the world average, and 3.5% in the United States[35].

Between 2005 and the first semester of 2008, USD6 billion was invested in the acquisition of 234 businesses[36], with USD 3.1 billion invested in 2007 and USD 2.2 billion invested in the first half of 2008. Even though only 6% of invested capital between 2005 and the first half of 2008 were directed toward Venture Capital, this stage represents 37% of the total number of businesses acquired during this period. Private Equity businesses represent almost half (47%) of all the investments made during this period, principally Private Equity – Expansion (35%). PIPE and Mezzanine investments represent respectively 13% and 3% of the total number of investments made.

[32] Considers the difference between the amount of capital invested by the industry as of June 2008 (USD 15.2 billion) and the estimate of commitments as of December 2004 (USD 4.0 billion). The value of USD 4.0 billion was obtained by considering the percentage already invested of committed capital in 1999 (50% giving a total of USD 1.9 billion) plus the investments reported between 2000 and 2004 (USD 2.1 billion) in the First Census of the Brazilian Private Equity and Venture Capital Industry (2005).
[33] Considers the difference between the amount of capital invested by the industry as of June 2008 (USD 15.2 billion) and the estimate of commitments as of December 2007 (USD 12.8 billion)..
[34] GDP for first half of 2008.
[35] Source: "Private Equity 2008" (IFSL Research) for the average 2007 global and US reference values.
[36] A total of 65 of the 299 investments reported from 2005 through the first semester of 2008 did not include the size of the investment. Values reported: USD 6.0 billion for 234 investments.

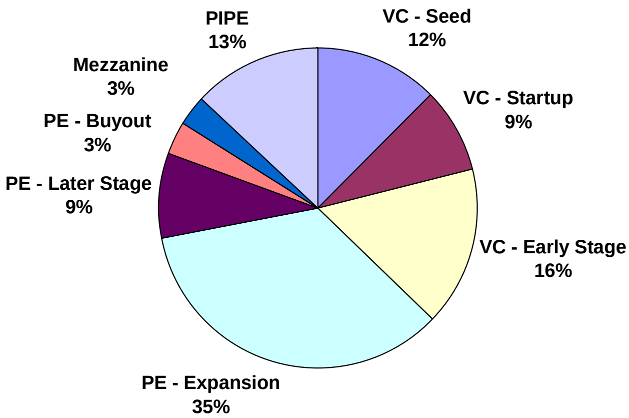
Sample of Investments Made Between January 2005 and June 2008



	2005	2006	2007	1T/08	2T/08	TOTAL
PIPE	19	2	12	5	1	39
Mezzanine	1	2	3	0	3	9
PE - Buyout	2	2	5	0	1	10
PE - Later Stage	1	5	15	2	3	26
PE - Expansion	6	21	46	17	14	104
VC - Early Stage	14	6	15	10	3	48
VC - Startup	2	8	12	3	1	26
VC - Seed	3	3	20	2	9	37

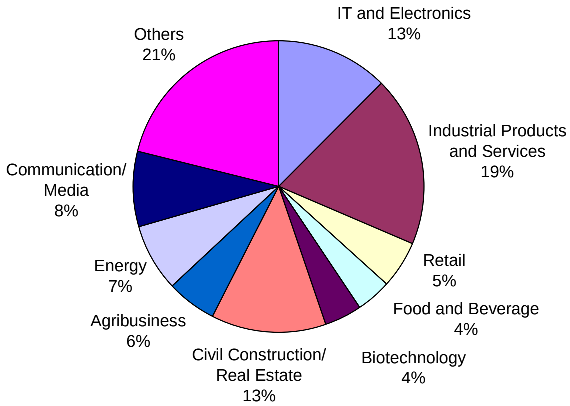
OBS: Sample: 299 investments.

Total Number of Investments Made between January 2005 and June 2008



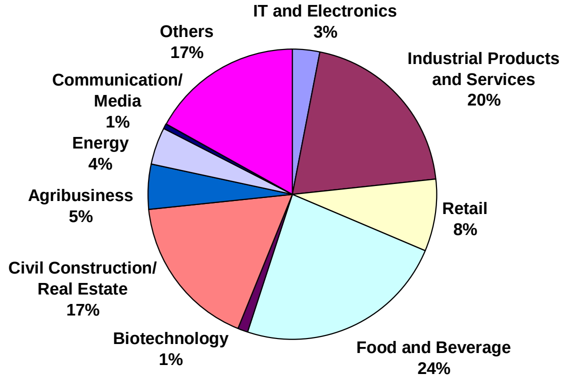
The relative participation of Private Equity in the volume of investments made between 2005 and the first semester of 2008 is easily explained by the greater average value (average ticket) of these investments in relation to Venture Capital. The average Private Equity investment over the period was USD 45 million, while the average value of Venture Capital investments was USD 4 million. The average Mezzanine and PIPE investments were USD 11 million and USD 8 million respectively.

Quantity of Investments Made per Industry (2005 to 2008)



OBS: Sample: 299 investments.

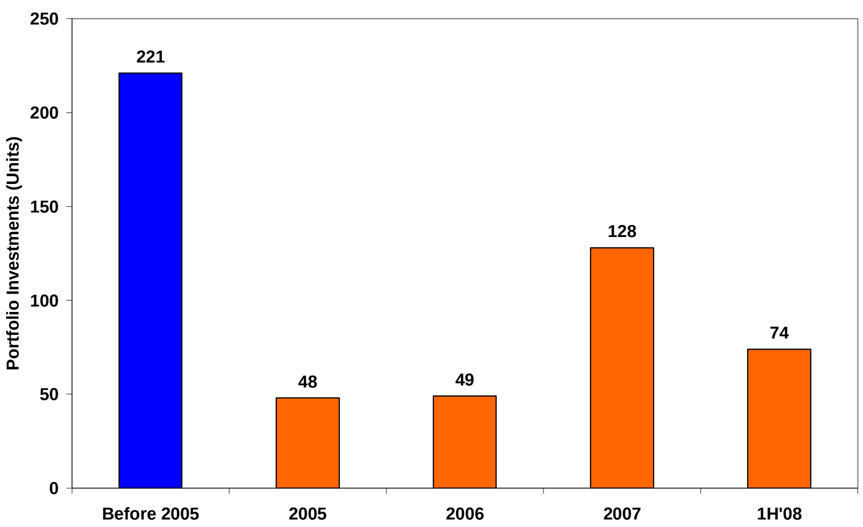
Value of Investments Made per Industry (2005 to 2008)



OBS: Sample: USD 6 billion in 234 investments (but 65 did not report values).

Approximately 10% of the investment vehicles with a focus on Venture Capital required control, while almost 30% of the vehicles working exclusively with Private Equity sought control in their investments. Almost 40% of the investments in portfolio companies were made before 2005, and thus are four or more years old. Considering that the investment vehicles in the Private Equity and Venture Capital industry last on average three to five years, it is possible to expect an important flux of new withdrawals over the next few years.

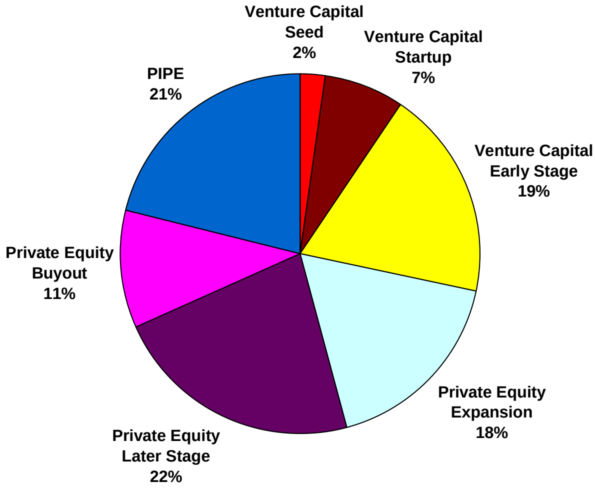
Quantity of Portfolio Investments per Investment Year as of June 30, 2008



OBS: As of June 30, 2008 there were 520 ongoing portfolio company investments, of which 39 were joint investments (total number of companies: 481).

We obtained a sample of 111 exits (85 total and 26 partial) over the period of 2005 to June 2008. Half of these exits were from Private Equity and 31% from Venture Capital. Of the 111 exits (total and partial), values were reported for 104 investments totaling USD2 billion over the period from 2005 and June 2008, of which 1.3% were in Venture Capital, 76.3% in Private Equity, 0.4 % Mezzanine and 22% PIPE investments.

Quantity of Exits per Company Stage/Type
Between January 2005 and June 2008

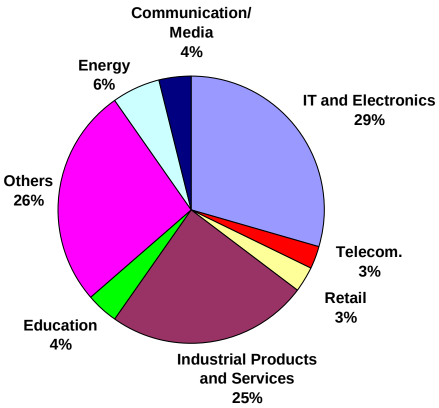


OBS: Considers total and partial exits.

Even though this represents only 4% of the financial value of the exits over this period, the IT and Electronics sector stands out with 29% of the number of exits. This is because the majority of these investments are concentrated in the Venture Capital segment whose average value is relatively low (USD 1.2 million). The average for Private Equity divestiture was USD 35 million, and the averages for Mezzanine and PIPE divestitures were USD 2 million and USD 25 million respectively.

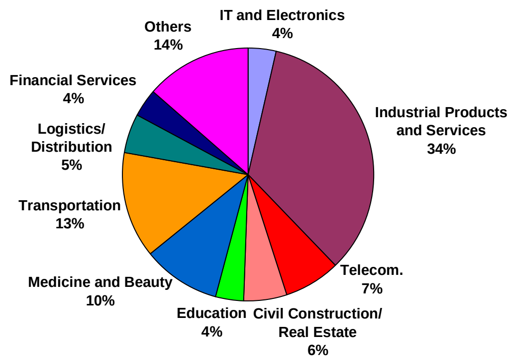
In contrast, the segment diverse industries, which includes various industries, stands out with a 34% exit rate over this period, followed by Transportation and Logistics/Distribution (19%), followed by Medicine and Beauty (10%) and Construction/Real Estate (6%).

Quantity of Exits Made by Industry (2005 to June 2008)



OBS: Sample: 102 exits (because 9 did not include which industry).

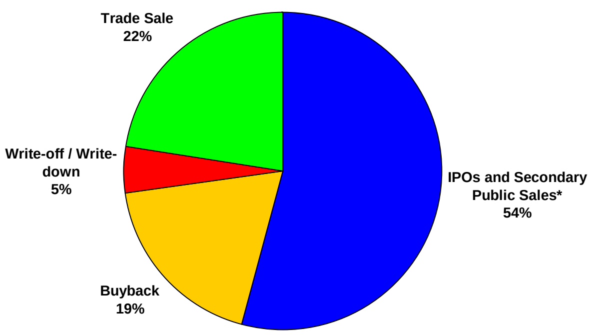
Value of Exits Made by Industry (2005 to June 2008)



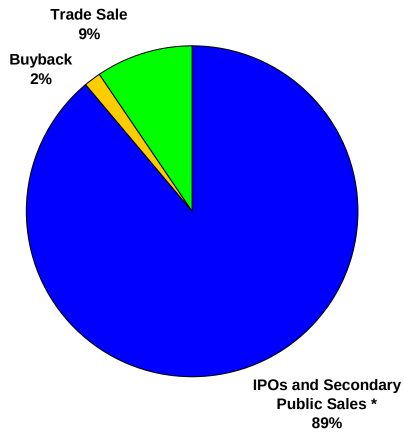
OBS: Sample: USD2 billion in 81 exits (because 30 did not report which industry).

Trade sales represented around 1/3 of the total number of exits in the industry over this period, while sales in the stock market represented 50% of the total quantity (whether they were through IPOs and divestitures due to them or sales of PIPEs.

Quantity of Exits by Type (January 2005 and June 2008)



Value of Exits by Type (January 2005 and June 2008

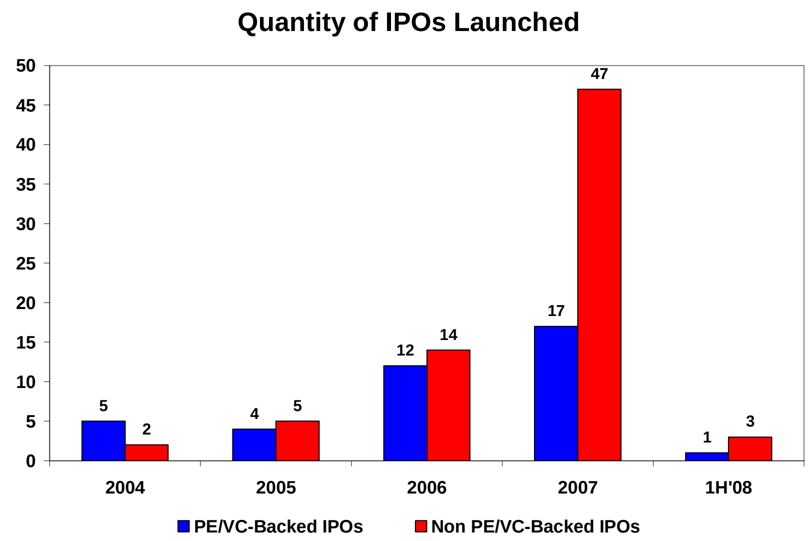


** Includes IPOs and secondary sales between funds.*
OBS: Considers total and partial divestitures.

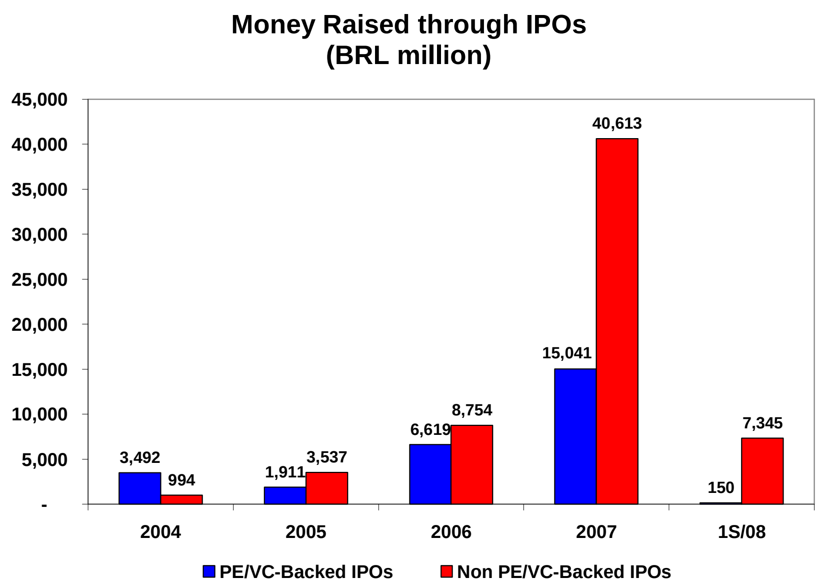
3.9.1. THE IMPACT OF PRIVATE EQUITY AND VENTURE CAPITAL ON THE STOCK MARKET

IPOs are one of the natural exits for PE/VC investments worldwide, however it didn't constitute a viable alternative in Brazil during the 1980s and 1990s because of the volatile macroeconomic environment and high interest rates that prevailed in the country during this period. This is why few companies looked to the stock market for long term financing in Brazil, and consequently, the IPO market passed through a "nuclear winter" period.

Nonetheless, with the improvement in the macroeconomic scenario and the increase in global liquidity, along with the reduction of interest rates, the stock market stood out again as an alternative long term investment. In fact, in the beginning of 2004 the Brazilian stock market took on a new momentum with the wave of IPOs set off by the exits from PE/VC organizations. From 2004 to June 2008, 110 IPOs were taken to market raising BRL 88.5 billion, of which 39 companies had received PE/VC investments prior to their public offering.



Source: Bovespa / GVcepe analysis



Source: Bovespa / GVcepe analysis

The total amount of money raised by companies that received PE/VC investments reached BRL 27.2 billion from primary and secondary offerings, equivalent to 31% of the total volume of IPOs made during this period.

Between May 2004 and June 2008, companies that received PE/VC investments had an average return of 17.3% as opposed to 1.5% for the companies that did not receive PE/VC investments, with 67% of the returns being positive for those that had received PE/VC investments and 40% being positive for those that had not[37].

[37] Includes first day returns.

4. PUBLIC POLICY

Even though the Brazilian public sector's direct role structured as a PE/VC organization in the PE/VC industry is not quantitative significant, its participation as an investor and creator of industry policy has been very important for the promotion and development of the Brazilian PE/VC industry.

4.1. ABDI

The ABDI, an entity tied to the MDIC – Ministério do Desenvolvimento, Indústria e Comércio Exterior (Ministry of Development, Industry and Foreign Commerce), was established in 2004 with the mission of promoting the implementation of industrial policy in Brazil and has been fundamental to the structured planning and sustained development of the Brazilian PE/VC industry.

In the context of the PDP – Política de Desenvolvimento Produtivo (Productive Development Policy), the ABDI defined the formation of the Brazilian PE/VC industry in its various stages of operations as one of its priorities through its private and public entity initiative. An example of this was the construction of a common agenda and coordinated actions on the part of public finance agencies like BNDES – Banco Nacional de Desenvolvimento Econômico e Social (National Bank of Economic and Social Development), FINEP and Banco do Brasil and PE/VC sector representatives, along with an agenda to attract investments and cooperate with government and non-government entities outside Brazil. For example, ABDI has participated in the MDIC-DOC Dialogue, in which the MDIC and the American Department of Commerce agree to discuss, among other things, capital formation policy in the PE/VC sector.

In addition, the ABDI has taken specific actions seeking to bring together the entrepreneurs' PE/VC organizations and companies with long term capital needs by helping these firms with their fundraising, seeking investors, and offering them diverse forms of access to capital over the long term for innovative firms, in line with government policy in the areas of foreign commerce and science and technology.

4.2. BNDES

BNDES' investments in PE/VC through BNDESPar, are reminiscent of the 1980s when direct investments were prevalent. In the 1990s, it took the first step toward outsourcing investment portfolios with Governança e Liquidez, the governance and liquidity program.

Since then, BNDES has made invested in 33 different investment vehicles, including Private Equity, Venture Capital, PIPE and Mezzanine investments, totaling BRL 1.5 billion in capital commitments by the bank (on average 20% of all vehicles), of which approximately BRL 0.6 billion has already been invested.

Recently, BNDES launched a program to support seed capital called CRIATEC, which chose a PE/VC organization to strengthen the industry's value chain.

4.3. FINEP

FINEP, created in 1967, is a public company with ties to the MCT – Ministério da Ciência e Tenologia (Ministry of Science and Technology) whose objective is to promote and finance technological development and innovation in the country.

The perception that small and medium sized companies based on innovative technology couldn't find adequate mechanisms to finance their growth in the traditional credit system, lead FINEP to create Projeto Inovar in March 2000. In this way, FINEP's support together with help

from entities such as BID/FUMIN, CNPq, SEBRAE, PETROS, ANPROTEC, SOFTEX and IEL, filled the gap in financing for technology based companies.

Based on its diagnosis of the PE/VC industry and the national entrepreneurial environment, FINEP launched the program Inovar Semente. It was created in the mold of Programa Inovar but was focused on the beginning of the value chain through entrepreneurial investments in the pre-operational stage, many times while they were still in company incubators and universities. From 2001 to June 2008, FINEP invested in 16 investment vehicles[38], of which 12 are currently running, 3 are raising funds, and 1 has divested, giving a total of BRL 219.3 million in capital commitments[39]. These vehicles have invested in more than 40 companies during this period, 60% with total revenue under BRL 10.5 million per year.

As a further support to the development of the PE/VC industry, FINEP launched the Forums FINEP (Venture Forum, Seed Forum, and the Fórum Brasil Abertura de Capital) with great success, with the objective of building the innovative entrepreneurial spirit through fund raising for small and medium sized companies, preparing them for the PE/VC organization investment process.

The Fórum Brasil Abertura de Capital (FBAC) was aimed at innovative companies with the potential to be listed on the stock market. In four years, five FBACs were held that prepared 21 companies, of which 11 received PE/VC investments, were acquired and/or launched IPOs that totaled BRL 2.6 billion. However, to the degree that the industry reached an adequate level of maturity, it was redirected toward the more initial stages of the value chain by the Seed Forum, created in December 2007 where only companies with at most BRL 2.4 million total revenue were included.

Since their creation, the FINEP Forums have supported a total of 243 innovative high impact companies: 162 in Venture Forum, 21 in the FBAC, and 60 in the Seed Forum. Without a doubt, FINEP's efforts with Programa Inovar/Inovar Semente together with the FINEP Forums have helped develop an entrepreneurial culture in the Brazilian PE/VC industry over the past few years.

[38] Since 2001 FINEP has received 137 proposals of which 81 were approved for the due diligence phase and resulted in the selection of 16 investment vehicles (13 under Programa Inovar and 3 under Inovar Semente). Between June and December 2008, FINEP approved 3 more vehicles 1 being under Inovar Semente and 2 being private equity vehicles..

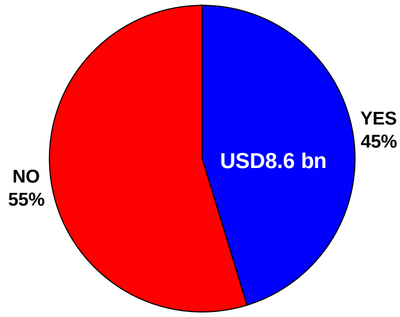
[39] FINEP seeks to commit on average 40% of the resources approved for vehicles under Inovar Semente, 20% under Programa Invoar, and 10% under private equity.

5. PROSPECTS

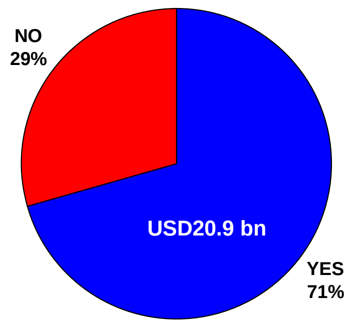
Despite the current crisis in world markets, the prospects for the Brazilian Private Equity and Venture Capital industry are very bright. The fall in stock prices and the consequent adjustment in perceived value on the part of entrepreneurs will stimulate even more PE/VC organization investments. These PE/VC organizations presently possess USD 11.5 billion to invest over the next three to four years, and this trend is confirmed by the fact that 92% of these PE/VC organizations are actively looking for new investments in Brazil.

In addition, 71% of the PE/VC organizations expect to raise funds in the next three years totaling USD 20.9 billion, practically the same value expected for fundraising activities in India over the same period.[40]

Are you currently in the process of fundraising in Brazil?



Do you plan to raise new funds in Brazil over the next three years?



Among the challenges for the industry over the next few years we can foresee:

a) Making sure that there is a continual supply of qualified professionals;
b) Regulatory resolution regarding the limits of the investor liabilities regarding the portfolio companies;
c) Stimulating the beginning of the value chain of the PE/VC industry through the expansion of angel investor networks and Seed Capital and Venture Capital – Early Stage investment vehicles.

Without a doubt, a great step was taken by the First Census of Brazilian Private Equity and Venture Capital (2005), and since then PE/VC organizations have recognized the importance of industry studies, theses and research, and have contributed data and information to GVcepe. Nonetheless, another challenge is to consolidate the culture of participation and support for research since quality structured information is very important to the development of the industry, and consequently, the country.[41]

[40] Source: "Private Equity and Venture Capitalism – A Report on India and China 2008" (ZPryme Research & Consulting)
[41] See "Essays on VC Investments" (Mollica, M. University of Chicago, PhD Dissertation, 2006) for more information about the impact of academic articles on the quality of the private equity and Venture Capital market.

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