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VINP.OQ - Q4 2021 Vinci Partners Investments Ltd Earnings Call

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## PRESENTATION

### Operator

Good day, and thank you for standing by. Welcome to the Vinci Partners Fourth Quarter and Full Year 2021 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference may be recorded. (Operator Instructions)

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

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**Anna Luiza de Castro Santos** - *Vinci Partners Investments Ltd. - IR Manager*

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

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](http://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 Factors section of our 20-F.

We will also refer some non-GAAP measures and you'll find reconciliations in the release. Also note that nothing on this call constitutes an offer to sell or solicitation of an offer to purchase an interest in any Vinci Partners fund.

With that, I'll turn the call over to Alessandro.

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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 extremely pleased to join you all today, as we announce results for our first year as a listed company.

Distributable earnings totaled BRL 68.5 million in the fourth quarter or BRL 1.22 per common share, an increase of 86% year-over-year. Additionally, Vinci announced a quarterly dividend of \$0.20 per common share.

We continue to deliver strong results across all our segments backed by management and advisory fees. Fee related earnings in the fourth quarter totaled BRL 54 million a 43% increase year-over-year.

We expanded our FRE margin by 155 basis points this year and in 2021, with 52% FRE margin versus 50% in 2020. We are pleased with this margin expansion, as we had to absorb additional cost this year as we became a public company.

We ended 2021 with BRL 57.2 billion in AUM, 15% above year-end 2020, driven by almost BRL 8 billion in fund-raising, coming primarily from our IP&S and private market strategies.

Vinci has been gaining significant market share within the Brazilian alternatives market since 2018. Our AUM has been expanding at a 31% CAGR since while the alternative Brazilian market has been growing at a 19% annual compound rate. This relative performance became even stronger in 2021. This year, Vinci's fundraising represents 60% growth over 2020 year-end AUM. In comparison, Brazilian overall fundraising expanded by only 4%, highly impacted by the recent rise in interest rates and the volatility in public markets.

Even in this scenario, our platform was able to raise capital organically and grow faster than the market without the contribution of a flagship private market fund. In the prior cycle, from 2018 to 2020, we had the benefit of raising our latest flagship private equity vintage, we've had a significant impact on AUM and also benefit from a tailwind of a more accumulative monetary policy.

The second half of 2021 was defined by the beginning of a sharp monetary tightening cycle when we saw interest rates rise from 3.5% to the current 10.75% in just 8 months. Our AUM has proven to be extremely resilient through the second half of the year as we did not suffer from significant outflows and, on top of that, raised additional AUM.

With the combination of this sharp monetary tightening and the fiscal surplus Brazil achieved in 2021, the country was one of the first globally to remove the stimulus associated with the COVID pandemic. Having already done this adjustment, we now face a future within normalized parameters and see the markets already reflecting disposition favorably as we began the year with strong appreciation in the real and solid performance from local equity markets.

Corroborating the platform's performance, Vinci raised approximately BRL 1.5 billion in the second half of the year in our liquid strategies and IP&S, while the Brazilian markets over BRL 33 billion in outflows in these asset classes. Our resilience regarding outflows comes mostly from the fact that our liquid strategies and IP&S funds are built upon an institutional investor base with very limited exposure to retail investors through distributors and open platforms.

In public equities and hedge funds AUM, only 10% distributable to retail investors through distribution agreements with banks and platforms. The rest of this AUM is well distributed across local and international institutional investors and high net worth individuals.

The same goals for IP&S for which 15% of the AUM is in retail food distributors with most of it allocated in pension funds and asset class with a stickier investor base. Most of IP&S AUM is in separate mandates from institutional investors with long-term vision on their locations. And of course, our AUM in private market strategies is composed of long-term products from 5 to 20 years of lockups and perpetual capital vehicles. I believe fourth quarter results are testimony to the power of our platform, validating what our business model can deliver even in the most challenging and volatile macro scenarios. This quarter sets a clear example of what level of results shareholders can expect from Vinci when we have different sides of the business performing at the same time.

We had solid results coming from our core business backed by management fees, combined with upside from advisory and performance fees. Advisory fees continue to be a pleasant surprise in the fourth quarter, contributing with BRL 20 million in net revenues and over BRL 60 million in the full year. The team has executed on important mandates in 2021. And on top of that, we started to advise early-stage growth companies in their funding rounds, which broadens our addressable market.

Our advisory business had a banner year. Although difficult to replicate in the short term, we believe the growth in our nation and mandates in new verticals will allow us to continue to develop the business organically in the future. We also had some positive impact coming from performance fees in our private market funds.

This quarter, the fund FIP Infra Transmissao in Infrastructure successfully divested from Lest, a power transmission concessionaire and returned capital to investors with considerable upside resulting in performance fees and investment income revenues in this quarter as we are investors in the funds from company's balance sheet. Our stake in the Infra fund was made years before the IPO. I believe this is an important indication of the future earnings power in GP investment income as we are committing capital raise in the IPO into our private market from launches. And when these funds start to divest from an assets, we should also benefit from them in our GP investment income line.

To give more perspective on performance fees, we started to disclose this quarter, and we'll continue to do so going forward. The total amount of accrued performance revenues coming from our private market funds, so that investors have a better sense and are able to monitor our performance fee pool. Bruno will touch more on that later in detail in how the funds are performing.

To finalize my remarks, I would like to go over a few highlights of our first year since the IPO and our growth opportunities going forward.

2021 was a transformational year for Vinci Partners. Management and advisory fees expanded by 43% year-over-year. FRE totaled BRL 222.5 million in the full year, almost 50% year-over-year growth. After-tax distributable earnings reached BRL 232.2 million in the full year and 82% year-over-year expansion. In 2021, we did not have any flagship products coming to market, but we did have where several small strategies launched, which is something extremely valuable to us as we grow our segments into synergistic strategies, deepening our penetration in the alternative space.

Early in 2021, we had the final closing for our impact private equity fund, VIR IV, which is already 42% deployed and could come back to market with a new vintage faster than we anticipated. We launched VF DL and VIAS in real estate and infra, 2 new private equity style funds. Our real estate team executed an IPO of their fifth listed REIT view focused on the urban commercial property sector.

By the end of the year, we had a first closing for our new strategy in IP&S, VINCI Strategic Partners, or VSP, focused on private markets allocation, which is a huge opportunity for us in the long term. We expect more capital to flow into VSP through the first half of 2022.

Our listed funds also came back to market with 3 successful follow-on offers in VIGT, VILG and VISC. These were completed with a combination of traditional primary capital raising early in the year in novel pain kind transaction in the second half once the market presented increased volatility.

Our ESG initiatives have been gaining recognition in all fronts. We were the first Brazilian asset manager to receive the Woman on Board Seal, as we have a gender-balanced presence within the independent part of our Board of Directors. Vinci also established an official ESG committee chaired by our Independent Director Sonia Favaretto, a pioneer in ESG for financial institutions in Brazil.

Our impact from VIR IV won the private equity ESG Fund of the Year Award from Environmental Finance. We also became officially a carbon-neutral company neutralizing our GHG emissions in scope 1 and 2 for the year of 2020.

Finally, to close on the 2021 recap, we launched our first-ever marketing campaign built on the pillar, reputation is the best investment. The campaign reinforced our main values and our most valuable asset, our reputation in the Brazilian alternative asset space.

Our goal is to reaffirm Vinci as the top-of-mind brand for alternative investments in Brazil. The content has been launched in all major advertising outlets, and we have been gaining some very encouraging feedback. The campaign has been responsible for increasing in 5x our web page user flow with over 26 million digital impressions and reached so far more than 2.5 million people over TV and newspaper ads.

Our objective is to strengthen our leadership position and continue to drive market share gains as we have over the past few years. In addition, we see a direct link to retail and pension products, both medium- and long-term growth areas of extreme interest to us.

Continue on growth opportunities. We have 3 flagship products that we will start fundraising 2022 in our private equity, infrastructure and credit strategies. These 3 products represent BRL 10 billion in target fundraising, a substantial opportunity for FRE growth going forward. Bruno will go into more detail about these funds and fundraising status in a few moments.

Another big upside for us comes from our cash position. We have approximately BRL 1.2 billion in our liquid funds portfolio. And until called by our private market funds, our cash allocations are exposed mostly to fixed income bonds. With the recent rise in interest rates, our revenues coming from financial income can be a major drive to distributable earnings.

Lastly, we set upon a highly underpenetrated alternative investment market in Brazil. Here at Vinci, we are constantly launching new funds and synergistic strategies. This comes in addition to our already robust and established platform, which will continue to raise capital, provide organic and continuous growth. As we move into 2022, we have a pool of exciting opportunities across the firm, and we are extremely well positioned to take advantage of them.

Our company grows stronger every day, and we have ambitious plans for solid growth ahead of us.

I'd like to thank you, again, all of you for attending our call and for your support. With that, I will turn it over to Bruno to go over our financial results.

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

Thank you, Alessandro, and good afternoon, everyone. Starting on Slide 10, we go over AUM roll forwards for the quarter and the full year. Private market funds accounted for BRL 2.5 billion in new capital subscriptions in the full year, with highlights for follow-on offerings in our listed vehicles, the launch of new strategies such as VFDL and VIAS, the IPO of VIUR, and the final closing for VIR IV.

We also returned BRL 225 million to investors as we divested from assets with highlights to the sale of Lest in the FIP Infra Transmissao in the fourth quarter.

Turning to our liquid funds. In the fourth quarter, we had BRL 393 million in outflows coming from our liquid strategies and IP&S funds, representing less than 1% decrease in AUM quarter-over-quarter, confirming our resiliency when compared to the strong outflows witnessed elsewhere in liquid strategies within Brazil.

In the full year, net inflows represented BRL 5.3 billion with highlights to our notable fundraising IP&S exclusive mandates and strong inflows into our hedge funds and liquid funds in the credit segment. AUM appreciation was flat in 2021, following a strong depreciation during the second semester and liquid strategies after a strong correction in the local market as the IBOVESPA Index dropped by 17% in the period.

Moving on to Slide 11. We are starting 2022 a very strong cycle for fundraising in private market funds, which we'd like to cover in more detail on this call. As Alessandro mentioned in his remarks, in the fundraising cycle between 2018 and 2020, our AUM growth was positively impacted by the fundraising for VCP III. In 2021, we do not have any flagship fund coming to market. So our AUM growth was driven by organic fundraising from existing products and the launch of spin-off synergistic strategies in private markets together with new IP&S exclusive mandates. This will not be the case for the next 12 to 18 months.

This year, we will start our fundraising efforts for 3 important funds for which we have a total fundraising target of BRL 10 billion. These funds can represent significant upside to our FRE number over the next years as they carry higher fees than our current average management fee rate.

Our flagship strategy in private equity is coming back with its fourth vintage, VCP IV. We're currently in road show for our first close in the first half of 2022. We are confident of a successful first close in VCP VI backed by reups from existing LPs from VCP III and also GP commitment from Vinci's balance sheet. Our third vintage has presented great results, marked at a 57% gross IRR in reals and 37% in dollars as of the third quarter of 2021. VCP III is currently 85% committed, and we are in advanced contract negotiations to sign the seventh and last transaction of the fund in coming days.

Next, leveraging on our historical exceptional track record in power, we are launching a new strategy in infrastructure, an impact climate fund with a core allocation in renewable energy assets. For this product, we expect first closing in the second half of 2022.

We are very excited about this new strategy as there has been a strong global push towards energy transition and clean energy strategies and Brazil has significant weather and geological characteristics that makes us extremely well suited to be a strong contributor to this transition.

Also, our credit team is coming out with a new fund to invest in incentivized infrastructure debentures with the first close expected for the second half of 2022. This fund has an approved anchor institutional investor that will see the fund leveraging our fundraising on top of our GP commitment. We also have opportunities across our existing strategies such as our listed products.

We have 5 listed REITs, which are fully deployed and eligible to come back to market with follow-on offerings. These funds continue to work on paying kind transactions as markets for clean primaries are still challenging. However, as previously noted, Brazilian markets have been strong in 2022, and conditions could open up for traditional primary issuances later in the year.

We have 2 new listed funds planned to go to market as well, both co-managed by our real estate and credit teams at Vinci. We are in the process of putting out a new REIT focused on the agribusiness sector for which the teams already have signed a joint venture with Chrimata, an investment company focused on the agribusiness sector.

The second leasing initiative is Vinci Credit Securities or VCS. This credit fund will invest in real estate mortgage-backed securities. This is a very exciting move for our credit strategy to have a perpetual capital fund in the B3, a move that was very successful for our real estate and infra teams before.

We have a new fund in our IP&S segment, a fund of funds focused on private market allocations called Vinci Strategic Partners, or VSP. VSP is our first dedicated effort in the allocation service segment entirely focused on private market funds. This is an extremely underpenetrated market in Brazil. And for that reason, we believe it can constitute a big opportunity for us in the long term.

At last, still in our IP&S business, we are very excited about our pension plan strategy. This is a great market that is still in very early stages, and we believe we have the opportunity to really capitalize on it. For us, this segment is retail and high net worth driven, representing retirement solutions for individuals and families. Today, most long-term pension products in the country have very limited exposure to private market strategies, being mostly exposed to federal bonds, equities and hedge funds. We're seeing strong migration in more developed markets towards alternatives for this type of capital allocation, and we anticipate the same change happening in Brazil.

Moving on to Slide 14. We go over accrued performance fees in our private market funds. Performance fee receivable increased to BRL 102 million in the fourth quarter, a 37% increase year-over-year, primarily driven by depreciation in VCP III that currently totals BRL 83.5 million in performance fees or 82% of total fees.

During the fourth quarter, Vinci realized nearly BRL 11 million in performance coming from FIP Infra Transmissao. Vinci Partners recognize the performance revenue according to IFRS 15. Unrealized performance fees are recognized only when it's highly probable that the revenue will not be reversed in the income statement. The fund FIP Infra Transmissao and Infrastructure had BRL 19.4 million as of the end of the fourth quarter of 2021 booked as unrealized performance fees in the company's balance sheet. We will continue to work towards realizing this gain in the next few quarters.

Accrued performance fees shown for private equity funds of BRL 82.5 million as of the end of the fourth quarter of 2021 have not been booked as unrealized performance in the company's balance sheet. Vinci had BRL 8 billion at the end of the quarter in performance eligible AUM coming from our private market funds still in investment periods that can further contribute to our accrued performance fees as these funds enter in divestment periods.

In Slide 16, we go over management and advisory revenues in the quarter and for the full year. Management fees were up 20% year-over-year following strong fundraising across private market and IP&S segments. Management fees for the full year totaled BRL 361 million, up 33% year-over-year. Advisory fees accounted for BRL 20 million in the fourth quarter and totaled BRL 67 million for the full year, up 131% year-over-year.

In Slide 17, we have our operating expenses for the quarter and full year. Total expenses represented BRL 59 million in the quarter, up 13% year-over-year or 8% when we exclude additional costs related to being a public company. The fourth quarter was also impacted by BRL 5 million in expenses coming from our branding projects final phase that featured content of equalization across all major media outlets in Brazil.

In Slide 18, we present our fee-related earnings. Fee-related earnings was \$54 million or \$0.96 per share, representing an increase of 43% year-over-year. Our FRE continues to be the core indicator of our business with growth in management fees and upside coming from advisory.

In the full year, FRE was BRL 222.5 million, an increase of 47% year-over-year. In the FRE bridge chart, we present a breakdown of fee-related revenues and expenses. Comparable FRE margin, when we discount public company and the branding project costs would have been 55%, 9 percentage points higher than FRE margin in the fourth quarter of 2020. Still, we ended the year with 52% of FRE margin, representing a substantial expansion in margins in just 1 year.

Next on Slide 19, PRE was BRL 2.4 million in the quarter and BRL 25 million in the full year, down 11% year-on-year. We had a weaker year in performance in our liquid strategies due to the severe volatility in public markets in the second half of the year as most of our liquid funds charge performance with a high-watermark. On the other hand, we had a substantial amount of our performance fees in the year coming from international exclusive mandates in IP&S.

In our private market funds, we had about BRL 11 million in realized performance fees coming from realizations in FIP Infra Transmissao. This performance was already booked as unrealized in the company's balance sheet, resulting in a neutral impact in PRE, but a positive impact on distributable earnings.

Shifting to Slide 20, we go over our realized GP investment in financial income for the quarter and full year. We had BRL 21.5 million in realized income this quarter coming from the gains in our liquid funds portfolio and GP investments in proprietary private market funds. Total realized income accounted for \$42.6 million in the full year. Realized GP investment income totaled BRL 12 million in the quarter, coming primarily from the capital return in the FIP Infra funds, in which the company had a GP investment and also a co-investment position.

Realized financial income coming from our liquid fund portfolio totaled BRL 29 million in the full year. We expect financial income to benefit from the recent increase in interest rates as most of our cash allocations are exposed to fixed income products.

Turning to Slide 21. After tax, the distributable earnings were BRL 68.5 million in the quarter or BRL 1.22 per share, up 86% year-over-year. This exceptional result was boosted by growth in management and advisory fees, combined with the positive impact on performance fees and GP investment income from the realization of FIP Infra Transmissao. After-tax distributable earnings totaled BRL 232 million or BRL 4.11 per share in the full year, up 82% year-over-year.

Finally, in Slide 22, we show our cash and investment balance. We finished the fourth quarter with BRL 1.5 billion in cash net investments or BRL 26.43 per share, approximately \$5 per share in cash position. So far, the company has committed BRL 309 million into private market funds with a little over half of that capital have already been called by the funds. For more detail, please see Slide 35 of this presentation.

And with that, I'll 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 24, our platform is highly diversified, and that is the main contributor to the resilience of our business. 48% of our FRE in 2021 came from our private market strategies, followed by liquid strategies with 19%, IP&S with 17% and financial advisory contributing with 16%. The same level of diversification is reflected in our segment distributable earnings.

Moving on to each of the segments, starting with our private market strategies on Slide 25. FRE in the fourth quarter was up 22% year-over-year, following a strong fundraising in 2021. Total AUM grew 15% year-over-year with new strategies within real estate and infrastructure, follow-on offerings in REITs and VIGT and the final closing of our impact fund VIR IV.

Our REITs were resilient, faced a challenging market in the second half of the year. Our shopping mall REIT, VISC closed a pioneer share swap transaction in the REITs market, exchange fund codes for the acquisition of 4 shopping malls, assuring our capability to deliver solid growth during a more challenging market scenario.

Our Infrastructure segment launched its new water and sewage strategy, VIAS, raising BRL 384 million in capital commitments throughout 2021. VIAS announced recently its first investment, a partnership with Aguas do Brasil to invest in the public concession of CEDAE's Block 3, deploying 90% of the capital raised. We believe this is a sector with extensive opportunities with the current public concession agenda in Brazil.

Our closed-end private market funds continue to deliver outstanding returns. VCP III, it's current market at a 57% gross IRR and 37% gross IRR in dollars. FIP Transmissao in infrastructure is marked at a gross IRR of 72% in reals and 54% in dollars.

As we addressed earlier in the call, FIP Infra Transmissao and its co-investment posted realizations in the quarter with the sale of Lest. This had an important impact on our realized performance fees and realized GP investment income.

Moving on to Slide 26. Liquid strategies FRE for the full year was up 39% year-over-year, driven mostly by the end of the revenue sharing agreement with GAS Investments in the beginning of 2021, which also impacted positively our average management fee rate by 22 basis points.

AUM and fee on AUM were down 19% year-over-year, a decrease driven primarily by significant market depreciation in the second half of the year. As we mentioned early in the call, we did not suffer from significant outflows as markets started to get more volatile.

The one outflow we had was in our public equities sovereign wealth mandate in the first half of the year of BRL 1.1 billion, which was a realization of gains made from a debt co-allocation from this investor in 2020, as we discussed in the call at the time. The original mandate is still under Vinci management and does not pay management fees. So we did not have any impact on our management fee revenues. By the contrary, fees are up 41% year-over-year.

Moving on to our IP&S business on Slide 27. FRE was BRL 38 million in the full year, a notable increase of 85% year-over-year, following outstanding fundraising over the last 12 months across our separate mandates strategy.

Much like our liquid strategy, local markets volatility negatively impacted our PRE results in the fourth quarter. Still in the full year, PRE totaled BRL 15.2 million, up 63% year-over-year, driven by great performance in our international exclusive mandates. Segment VIE was up 78% in the full year, showcasing the strong trends we had in our IP&S vertical recently. We are confident that IP&S is well positioned to repeat its success in 2022.

Finally, in Slide 28, financial advisory reported another excellent quarter, ending the year with outstanding results. FRE in the fourth quarter was up 372% year-over-year. In the full year, FRE was BRL 36.2 million, an increase of 138% on a year-over-year basis.

That's it for today's presentation. Once again, we would like to thank you for joining our call. With that, I would like to open the call for questions. Operator?

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from the line of Tito Labarta with Goldman Sachs.

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

A couple of questions. I guess, first on the advisory fees continue to be very healthy, as you mentioned. Curious how you would think about the advisory fees for this year, if you can sustain that level, or if that should normalize a bit to what we saw in 2020? And then second question on the

public equities. AUM has still been a bit under pressure there. How do you think about your ability to increase AUM for public equity particularly in the current market environment?

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

Tito, thank you very much for your question. That's Alessandro. Just starting with your first question about adviser fees. We think to be conservative this year, with very difficult to replicate the same level of adviser fees at least, it's something that we'll not expect. But for sure, we changed the level of this business at Vinci. With the banner year, as I said before, in 2021 for this type of mandates and especially M&A advisory, we have been engaged in a lot of more important than higher fee-based mandates. And also at the same time, we have been able to reach more a larger number of clients. So we expect this line of business to normalize in terms of level of revenues in a higher tone. But this year, specifically 2021 was a very special year. So we do not expect the same level for 2022. But for sure, we are raising the bar here for the revenues coming from our advisory business.

Talking about now about the public equities. As you saw, we had, of course, despite of the market, a very good performance in terms of keeping the money side Vinci, especially because the majority of the money in our public equity funds and separate managed accounts comes from institutional investors. We are not seeing right now still the money coming back from retail. We have a very, very thin activity from institutional investors so far. We are not seeing redemptions. But what we are seeing, it's a growing interest coming from international investors for public equities. This did not translate in our case still for a very strong inflow. But for the first time, and this is not just for public equities, this is happening for some private markets business here at Vinci, for, I don't know, at least in the last 3 years, we did not see so many interest in the country coming from foreigners right now. If that will translate in an important inflow in our -- not just public equities. As I said, we have the question about public equity mandates, but also in the private market side, if that will translate in inflows, it's still early to say. But for the first time in the last 3 years, we have seen much more interest coming from international clients.

I can give you one specific point on that. We just did, I think, last week, a call about macroeconomic scenario in Brazil, how we see the elections going forward with current clients and also prospects. And we had more than 100 clients joining this call. This for us is something that grew from the last one around 30 on average for more than 100. So this, for us, a sign of growing interest in Brazil coming from foreign institutional investors.

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

Maybe just one follow-up, right, on the IP&S, which continues to grow very strongly. But it does have lower FRE margins. If that kind of growth continues, do you expect to see some pressure on your FRE margin this year or any outlook you can give on how the margin should evolve for 2022?

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

No. We expect this growth to continue, but the margin will stay the same in the business. We are seeing still, even with this volatility in the market in the last 2 quarters, now it's a little bit better. We have seen a continuous interest in our IP&S business, especially coming from institutional investors. So we expect that this growth to continue steadily because we can always agree with the clients that we will park this money in the mandate in more, let's say, conservative allocation, conservative portfolio, like more fixed income and then migrate slowly for an ideal asset allocation portfolio.

So that's why we continue to see this interest and the mandates still being done here at Vinci and the money flowing in. But in terms of margin, we continue to see this very stable at the same level that we saw before.

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

Tito, just to complement on Alessandro. We had a nice few years of FRE expansion since '17, '18 until now, which was associated with the expansion that we saw in the AUM side of the business. This year, we continue to grow AUM, but the mix was a little bit more towards IP&S. So our average fee rate has not moved a lot in 2021, although we did get some traction on the FRE margin as well in '21. We got an almost 200 basis points of expansion in '21.

For '22, we feel that the margin expansion movement will likely be less pronounced, probably a little bit more stable FRE in '22. And then with the fundraise that we have in private markets that going through throughout the year, we expect the margins to resume expansion in '23. So that's more or less how we're looking at the margin profile going forward.

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**Operator**

Our next question comes from the line of Ricardo Buchpiguel with BTG Pactual.

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

Congrats on the good results. Could you please comment how we should expect performance fees flowing for the P&L this year, and the reason for the lower tax rate in the quarter? I know that there is a lot of uncertainty in the slide, but any color would be appreciated.

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

Thank you, Ricardo, for the question. So in terms of performance, I mean, obviously, we depend on how the markets perform, right? So we have a lot of our funds that are accruing performance now in the short term that are on the liquid side of the business. So 2021 wasn't a particularly strong year for that side of our performance or in AUM. A lot of the products have high watermarks. So it depends really on how the local markets perform.

I think on the positive side, we started the year strong in Brazil on the liquid side. So we had a lot of inflow to the market. The exchange rate is stronger and also the stock market is performing better. So I think -- to that extent, if that continues throughout the year, we will probably have a better picture from the liquid side of the business than we had in 2021.

What we do have as well, and we noted that in the fourth quarter, we had some impact from the sale of a part of the FIP Infra Transmissao. We continue to work on divesting from the rest of that fund. So we expect to be able to conclude that divestment through the year. We expect that to be concluded in '22. And the impact for the rest of the divestment of the fund will be similar to what we had in '21. So if we're able to sell the rest of the portfolio, we're going to have another impact of more or less the same magnitude in the '22 distributable earnings number. So it's a neutral impact to PRE because we already had that flow into the balance sheet. But on the distributable earnings, it is going to be a positive impact this year, and we are hoping to close the rest of the sale this year.

In regards to the tax, the majority of the explanation behind the low tax rate is the financial income. So the financial income, it impacts our income statement, net of taxes. So it's not a taxable line. So when you look at the pretax income, that part of the result has already been taxed. So that's why the tax rate is a little bit lower than what we had last year. And of course, I mean, to the extent that we continue to have realized income, and that realized income is flowing through the income statement, the tax rate will continue to have the same profile going forward. So that's the explanation behind the tax line.

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**Operator**

Thank you. And I am showing no further questions at this time. And I would like to turn the conference back over to Alessandro for any further remarks.

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

Thank you very much. I would like to, again, thank you all for the support and the questions, and we hope we can deliver another year or a very outstanding results like we did in 2021. That was our first year as a public company, and we are very happy to really could deliver the results that we did, in line with what we thought that will be possible during the time of the IPO. So I would like to thank you very much, and I hope to see you on our next call.

**Operator**

This concludes today's conference call. Thank you for participating. You may now disconnect.

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