

Brazil Elections 2018



IG4 CAPITAL

IG4 Capital is an
alternative investment firm
focused on special situations
and sustainable capitalism.



IG4 CAPITAL

Its unique approach towards private equity and private credit investment opportunities is based on promoting positive change in the fundamentals and operations of companies and assets. IG4 Capital currently manages its first fund, a R\$1.1 billion deal specific fund, IG4 Capital Private Equity I, in partnership with leading Brazilian banks and capital from other institutional investors. IG4 Capital is also in the process of raising its second private equity fund, IG4 Capital Private Equity II.

Index

1

Making sense of the 2018
presidential elections

04

2

What we might have ahead of us in terms
of the economy

09

3

Possible impacts upon private equity and
private credit investments

17

Making sense of the 2018 presidential elections

The 2018 Brazilian presidential elections marked the breakdown of the political dynamics which had been in place since the country's transition to democracy in the late 1980s. These dynamics featured two parties headlining the coalitions that ran the country by forming majorities in Congress (both in the House of Representatives as well as the Senate).

Initially, the PSDB, which is considered the social-democratic party, led the governmental coalition from 1992 to 2002, beginning with the impeachment of President Collor (1990-1992), after which Collor's Vice-President, President Franco (1992-1993), assumed power and named Mr. Cardoso Minister of Finance. Mr. Cardoso subsequently implemented the "Real Plan", which stabilized hyperinflation and introduced a new currency (the "Real"). In 1994, Mr. Cardoso himself was elected president and he was re-elected in 1998, remaining in power until 2002.

Afterwards, the PT, the workers' party, led the ruling coalition from 2003 to 2016, during Mr. Lula da Silva's (2003-2006 and 2007-2010) and Mrs. Rousseff's (2011-2014 and 2015-2016) administrations.

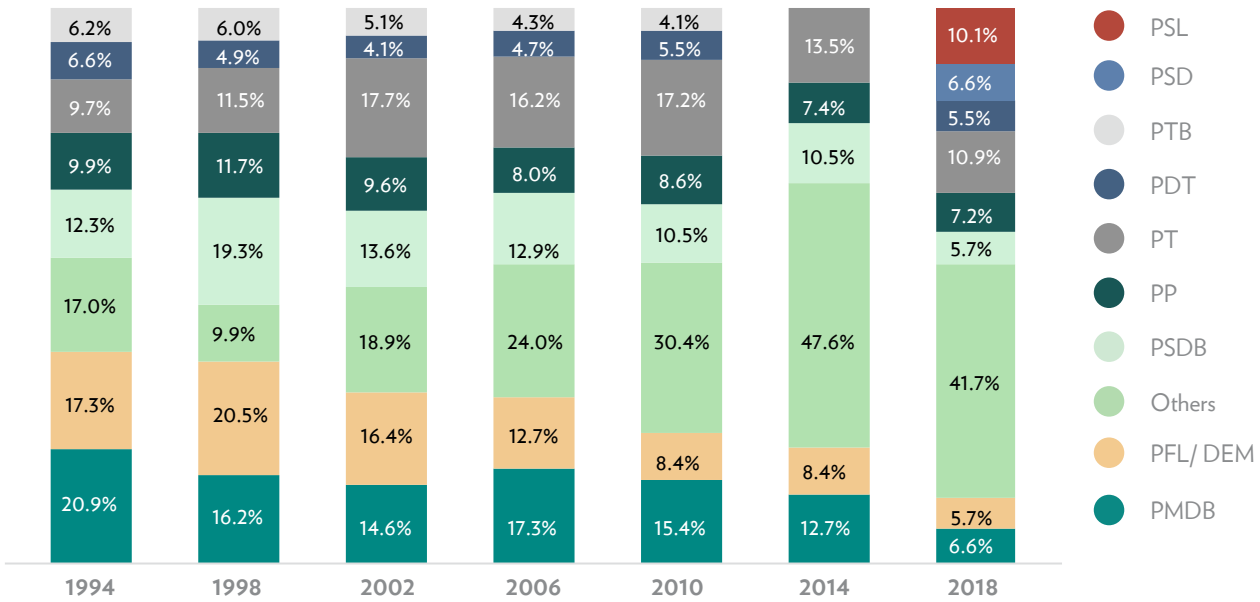
The PT occupied the center-left of the political spectrum and the PSDB led the center-right, but neither party had enough seats in Congress to form majorities by themselves, leading the party in power to depend upon the support of

the PMDB (nowadays referred to as the MDB) to form a governing coalition. The MDB is a pragmatic coalition of political groups made possible because of its ideological "centricity". Following the impeachment of Ms. Rousseff, her former Vice-President, Mr. Temer, formed an MDB-led government (2016-2018) that was supported by a new coalition with the PSDB.

Taking turns teaming up with the MDB during each of their respective periods of dominance, the PSDB and the PT not only enjoyed majorities in the House of Representatives and the Senate, but also a majority of the elected governors and mayors in the country since 1994.

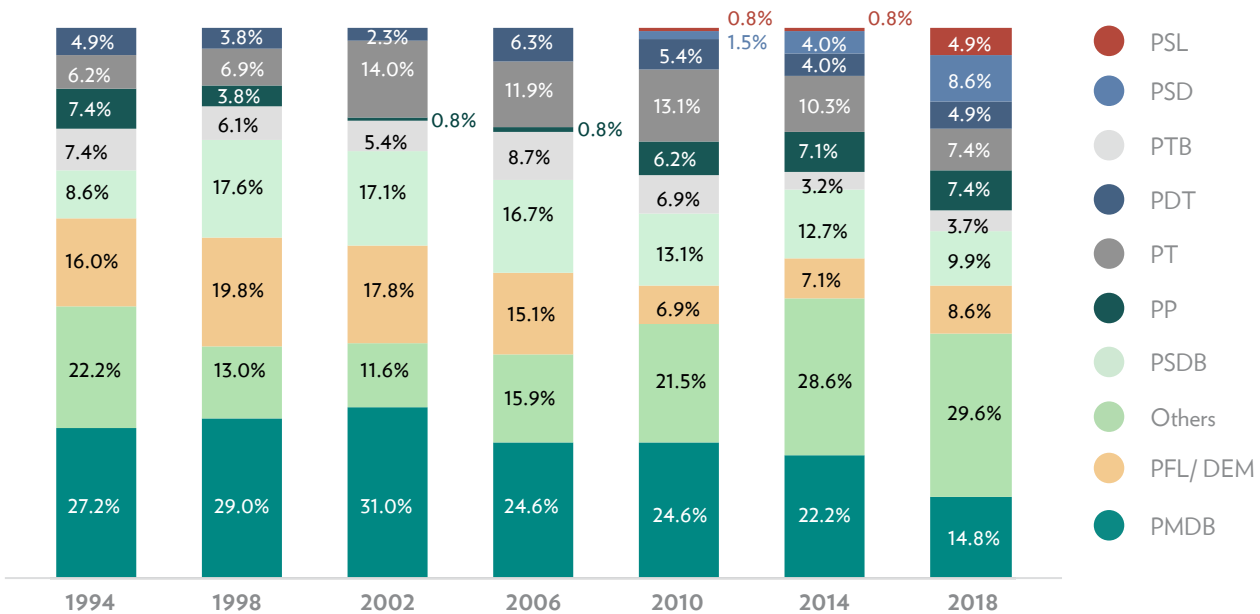
Smaller parties traditionally would join the ruling alliance depending on their ideological positioning, with center-right parties (DEM, PFL, PSDB, PTB, PPS, PP) joining the MDB / PSDB alliance and center-left parties (PSB, PDT, PCdoB, PL, PTB, PRB) joining the MDB / PT coalition.

Party Breakdown in the House of Representatives from 1994 until 2018



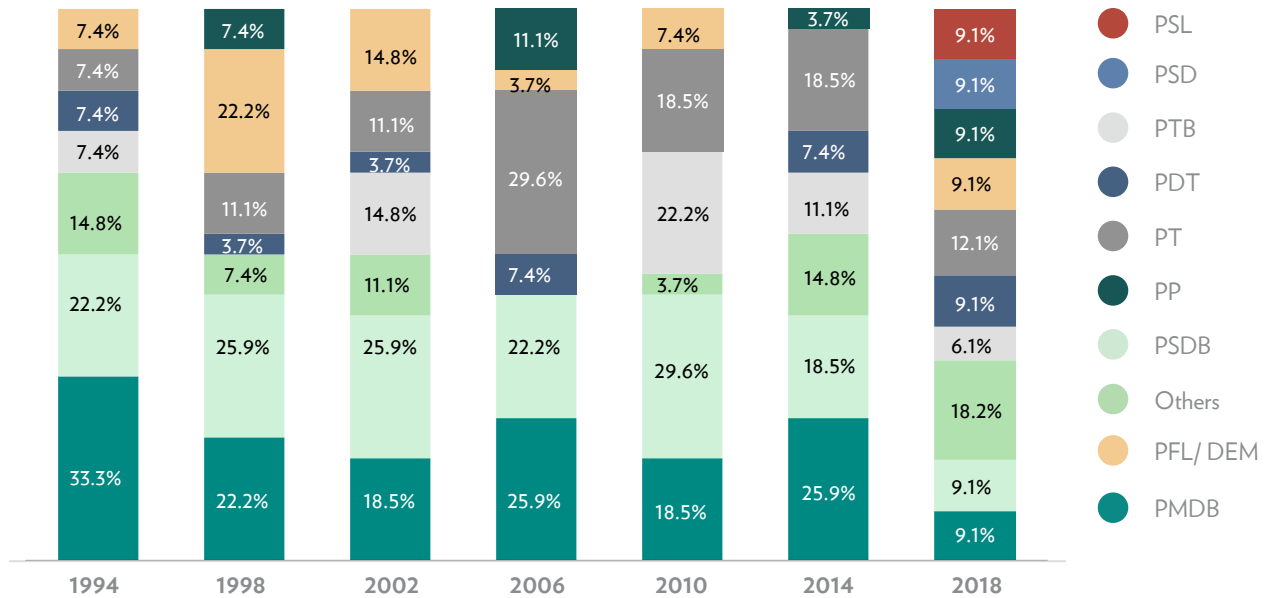
Source: Portal da Camara dos Deputados, TSE

Party Breakdown in the Senate from 1994 until 2018



Source: Portal Senado Federal, TSE

Party Breakdown amongst State Governments from 1994 until 2018



Source: Valor, Estadão and Folha de SP Journals

This brand of presidentialism, dubbed coalition presidentialism because it requires parliamentary coalitions in order to be politically sustainable, made possible the approval of major reforms and new laws, both by PSDB-led and PT-led governments, over the last few years. The Lava-Jato (the “Car Wash” investigation and anti-corruption campaign in Brazil led by Judge Moro and the Brazilian Federal Police) scandal was a game-changer in that it exposed the main campaign financing schemes of these political dynamics. The scandal is behind the broad climate of rejection currently encompassing all traditional politicians and political parties, and which first emerged during street protests in June 2013 and led to the demise of the traditional center-right (PSDB) and traditional center-left (PT) power blocs that had been the norm over the last couple of decades. The PSDB’s successful reforms, including macroeconomic stabilization, trade liberalization and privatization, and the PT’s ability to maintain macro stability and promote social

redistribution, led to the emergence of a new middle class that was the main driver behind the political change that is currently taking place, and which has swept both parties out of power. This new middle class determined that the economic crisis was the result of bad policy choices by President Rousseff, and that its long duration was the result of the political crisis that paralyzed President Temer’s government. One last element that needs to be addressed is the ideology espoused by this new middle class. The economic threat posed by the recession compounded their sense of moral outrage stemming from both corruption in political circles as well as excessive liberalism in contemporary society. Feeling politically disenfranchised, they found a new medium, social media, through which to vent their frustrations and reinforce their simplified view that most of their problems were the doing of “corrupt politicians” and a broken political system. With the benefit of hindsight, it is not that surprising that a right-wing populist won the last presidential election.

What will change under President Bolsonaro?

President Bolsonaro's party, the PSL, was completely insignificant until very recently. The party was formed in 1994, and prior to the 2018 elections, had only one deputy in the House of Representatives and no appointed senators or governors. The party also did not contribute any ministers to any of the former government cabinets.

Even though Mr. Bolsonaro has had a long political career, his party and his own influence within Brazilian political circles was trivial, which explains how he was able to paint himself as an outsider even though he has been a congressman for over 28 years. A series of smart and opportunistic political moves made it possible for Mr.

Bolsonaro's election:

Firstly, his alliance with two important political groups in Congress was based not so much upon party lines but around shared themes: (i) the ultra-conservative Evangelical Right, which today has eighty-seven (87) deputies and three (3) senators elected across several parties; and (ii) the agribusiness representatives in the Congress, a group numbering approximately two hundred (200) deputies and thirty (30) sitting senators.

Secondly, by using his base in the "law and order" coalition in Congress which represents the interests of the military and the Federal Police, Mr. Bolsonaro joined forces with important groups within the military (which is still upheld as a symbol of order in the Brazilian psyche) and adopted an anti-corruption platform that was completely aligned with the general public's belief that the "Car Wash" was a consequence of old school corrupt politicians (from the PT, but also the MDB and PSDB) and family- and state-owned businesses.

Thirdly, he leveraged his already significant social media presence (especially via WhatsApp, Facebook and Twitter) to spread his message, as opposed to relying upon television and radio, the traditional media platforms dominated by the larger and older parties (PT, MDB and PSDB). By virtue of his party's relatively small size in Congress, Mr. Bolsonaro only had eight (8) seconds for his campaign on public television and radio, versus 2m23s for the PT, 1m55s for the MDB and 5m32 for the PSDB. Moreover, Mr. Bolsonaro decided not to participate in any of the televised presidential debates and avoided public confrontation with his adversaries.

Fourthly, Mr. Bolsonaro made a shift towards a more market-oriented speech regarding economic reforms, arguing that privatization and reducing the weight of the state is necessary in order to decrease corruption and resume growth in Brazil. For that, Mr. Bolsonaro outsourced his economic agenda to Mr. Guedes, a Brazilian economist with a Ph.D. from the University of Chicago who built a career as an investment banker and financier in Brazil. With that, he gained support from the main actors in the capital and financial markets as well as major communications groups in Brazil.

Beyond the Mr. Bolsonaro presidency, the PSL won fifty-two (52) House of Representatives seats, eight (8) seats in the Senate, and elected three (3) governors (Brazil has 27 governors from 26 states plus the Federal District). The party became the second largest political party in Congress.

Although the PSL has emerged as a new political powerhouse within Brazilian politics, the PT and MDB continue to wield influence. Similarly, although the PSDB is the traditional political party which lost the most power during the recent elections, it continues to be relatively important.

During his campaign, the new president said that he would eschew “old coalition” politics in which party leaders appointed ministers and executives in state-owned companies, gaining control over important budgets and policy agendas in exchange for political support in Congress, and he has so far followed suit via his cabinet appointments. Instead, he says he will gain political support through the thematic groups that supported him during the campaign, namely the evangelical, agribusiness and law and order interest groups in Congress.

These cross-party coalitions are quite consistent within the narrow scope of their thematic interests, but coalition presidentialism was not an accident - it was the result of the procedural rules in Congress that give party leaders considerable leverage over their rank and file through controlling the appointment of members to congressional committees, access to campaign funds and congressional agenda setting to either promote or block legislative proposals. The power of party leaders may have decreased, as several newcomers have demonstrated that huge campaign war chests are no longer essential if you manage social media well, but Congress still has an interest in preserving its independence through its procedural rules in order to gain leverage against the Executive. Furthermore, a wave of party mergers, reducing the number of parties while simultaneously increasing their average size and the power of their leaders, is expected to happen because of a law passed in 2017 which established higher minimum thresholds in terms of the number of elected officials and votes that a party must have in order to have access to public funds.

In a nutshell, President Bolsonaro’s government will not be able to run the country by itself. The PSL has become an important political force but it will have to form a new coalition with the MDB, PSDB and the other center-right parties in order to have a majority in the Congress and pass any major policy reforms or legislation.

However, in order to join forces with the MDB, PSDB and the other center-right parties, President Bolsonaro will have to be politically flexible and agree to deal with some of the traditional political vanguard that continues to wield significant influence in Brasilia.

Although Mr. Bolsonaro and the PSL might be able to create a majority in Congress, the PT and the center-left will serve as an important opposition counter-weight. Moreover, we do not believe that the MDB and the PSDB will necessarily be unwavering allies of the PSL. Mr. Bolsonaro has appointed Judge Moro to be the new Minister of Justice, and if he continues to fight corruption in Brazil (which is what we expect), in doing so he may continue to harm important figures within the MDB and the PSDB, as well as others from the center-right parties that will be important allies for President Bolsonaro within Congress.

As a result, we do not expect to see a strong and stable new political coalition supporting President Bolsonaro’s government during the coming four years. This Congress will likely experience a much more volatile political environment than what was seen under the PSDB and PT-led governments of the last twenty-five years, which may hamper its ability to pass important legislation.

What we might have ahead of us in terms of the economy

Mr. Guedes, the newly appointed “Super Minister for the Economy” – combining the former Ministries of Finance, Planning and Industry - and President Bolsonaro’s “Chief Economist”, has a very clear market-oriented and liberal reformist agenda. The following reforms are key for the success of Mr. Bolsonaro’s government and critical for Brazil to resume growth and sustain economic and social stability. The main players in the capital and financial markets are also betting on Mr. Guedes to keep Mr. Bolsonaro and his team away from trouble, especially if they try to get hard on environmental and social rights and liberties. The agenda is very complex, and it will not be easy to implement reform.

A. Social Security System Reform

If the Brazilian social security system is not reformed by the end of 2019, the Brazilian federal government will face difficulties complying with its financial obligations in the coming years. The main challenge is to implement reforms to the public pension system, whose main liability is made up of around one (1) million high-income civil servants, mainly from the military, as well as judges, prosecutors, congresspersons, directors and superintendents of state-owned companies and the federal police. These individuals represent over 30 percent (30%) of the Brazilian social security system’s public deficit. Social security reform could face strong opposition from the center-left, especially if President Bolsonaro does not offer a pound of his own flesh by reducing the benefits of elite civil servants.

Without a strong and stable political coalition in Congress, IG4 does not foresee any major reform that could solve the public deficit and open up room for the government to once again resume investment and increase the level of domestic savings in the Brazilian economy.

B. Privatizations, Resizing the State and Fiscal Policy Reforms

The Federal Government alone has controlling stakes in 147 state-owned companies as well as minority stakes in 58 others. Mr. Guedes has been vocal in his commitment to put forward a major privatization program, selling major federal assets including power generators, port authorities, and Petrobras’ non-core assets amongst others.

The Brazilian Development Bank (BNDES) will probably oversee the new privatization program. The bank’s new CEO will be Mr. Levy, a former Minister of Finance and CFO of the World Bank. Mr. Levy, like Mr. Guedes, obtained his Ph.D. at the University of Chicago and shares common views about economics and market-oriented reforms with the new Minister of the Economy. However, Mr. Levy was unable to deal capably with the complex Brazilian political coalitions during his term as Minister of Finance (in 2015, during President Rousseff’s second term). His success in executing the privatization plan will very much depend upon political support and on his ability to deal with the opposition of the federal state bureaucracy and its civil servant elites.

If the privatization program succeeds, the proceeds will help the government reduce its public deficit. However, the most valuable federal assets are the oil and gas assets owned by Petrobras as well as the state-owned banks (BNDES, Caixa and Banco do Brasil), both of which have already been declared not for sale by the President-Elect. They are considered important in terms of national security by the military and are controlled by an elite of civil servants with very strong ties to the Brazilian political class.

We will likely see the privatization of some power generation assets as well as some less strategic assets. However, it is unlikely that Petrobras's oil and gas assets or the public banks will be privatized. Therefore, the size and potential impact of the privatization process upon the federal government's fiscal situation remains uncertain.

On the other hand, Mr. Guedes is promising to resize the state, reducing ministries, secretaries and departments. The success of these initiatives will depend very much upon President Bolsonaro's ability to form a new coalition that understands and accepts that politicians will have less space to appoint political allies to key positions in the state bureaucracy, including in state-owned companies that hypothetically will be privatized.

Finally, it is very likely that the new government will maintain all necessary efforts to respect fiscal responsibility and maintain the soundness of public expenditure. In any case, this will depend upon President Bolsonaro's ability to pass the necessary reforms within Congress based on the new political coalition to be formed.

C. Tax Reforms and a More Open Foreign Policy

Brazil has a distorted tax system. Companies pay higher corporate income taxes (34%) than in more mature economies, there are several additional corporate taxes

paid on industrial products, services and goods that make production and consumption costs in Brazil higher than those in developed markets, there are no taxes on dividends (even when companies' dividends are distributed to shareholders as income), and the difference between taxes paid by high and low income citizens is narrow.

President Bolsonaro and Mr. Guedes have been saying that they will put forward a new tax reform capable of reducing these distortions. The three main drivers of the tax reform briefly outlined by Mr. Bolsonaro and his team will be (i) the reduction of corporate income tax, (ii) the creation of a tax on dividends, and (iii) the reduction of taxes for lower income citizens.

On top of that, the new government may reduce import taxes and remove foreign trade tariffs and barriers, making the Brazilian economy more open. This may increase competition in the market and reduce production and consumption costs while creating significant stress in segments of the national industry which today benefit from protection from imports.

These reforms will most likely face severe pressure from lobbyists in Congress. Agribusiness supported Mr. Bolsonaro during his campaign and may continue to benefit from the protection of the new government as a result. Traditional automaker, electronics and heavy industry lobbyists may continue to apply pressure to avoid the reduction of import taxes, incentives and barriers.

Even though a general reduction of corporate taxes and corrections of existing distortions might accelerate investment, the big question to be discussed is how tax reductions will be compensated for in such a manner as to not adversely impact the fiscal reforms and the federal government's budget capacity.

D. New Infrastructure Investments and the Challenge of Long-Term Credit

Brazil has recently been investing only 2% of its annual GDP in infrastructure. This will most likely increase to at least 4% under the new government, and ideally to 6% over the next ten years in order to modernize the country's infrastructure and provide quality public services to the population. This represents between R\$200 and R\$400 billion per year in investment and could increase gross capital formation in the economy and lead to growth.

However, infrastructure investments require long term planning and long-term credit to fund said investments. Additionally, they also require solid insurance and reinsurance systems as well as clear and stable regulatory frameworks that can attract long-term and productive foreign investment into Brazil.

There are various segments of the infrastructure industry in Brazil that could be part of a large and important concession program, such as water and sanitation, toll roads, railways, airports and social infrastructure, including Public Private Partnerships (PPPs) of hospitals and schools.

Mr. Guedes has been pointing out that infrastructure will be a key component for the growth of the Brazilian economy under President Bolsonaro's government. However, it is still unclear if the Brazilian state-owned banks such as BNDES and Caixa will continue to provide long-term credit under financial conditions and costs capable of attracting new equity investment.

Currently, Brazilian capital markets and commercial banks continue to be underweighted in terms of funding capex for infrastructure investments. The main reasons for this are high costs and credit lines with durations that are too short for larger, more complex projects. On the other hand, foreign exchange volatility continues to be a barrier to providing infrastructure companies with long-term, less expensive credit lines in foreign currencies.

The new government has indicated that it wants to enhance the current government's main program, the PPI (Partnership for Investments Program), in order to encourage new private infrastructure investments under concessions and PPP contracts. But in addition to wishful thinking and words, this requires adequate planning, a solid and well-structured pipeline of projects, clarity of rules and credit. Brazil has failed to adequately support infrastructure investment and might face even more competition in the international equity and credit markets if the United States and China increase their infrastructure investment programs.

E. Independent Monetary Policy and the Challenge of Low Interest Rates for Consumption and Real Estate Credit

During Mr. Cardoso's and Mr. Lula da Silva's governments, the Brazilian Central Bank acted independently in practice, notwithstanding the fact that it does not have independence pursuant to applicable law in order to conduct monetary policy and or control inflation.

During Mrs. Rousseff's governments, Brazilian monetary policy suffered from increased political interference, which undermined the credibility of the Central Bank's foreign currency and inflation control measures.

Over the last two years, Mr. Temer has put the Central Bank back on track in terms of regaining credibility. Mr. Guedes has stated that he will establish Central Bank independence under the law, thereby shielding monetary policy from political interference.

This seems very likely to occur and would be a very good sign of monetary stability for the financial markets, potentially contributing towards less volatility for the Brazilian currency as well as more clarity for inflation controls going forward.

On the other hand, it is unlikely that monetary policy will be able to deliver sustainably low interest rates in the Brazilian economy and foster credit expansion for consumption and real estate purchases. Structurally, domestic savings in Brazil continue to be very low and there is not much space to increase credit to foster growth through consumption and real estate development if the fiscal situation of the state is not fixed by increasing public savings.

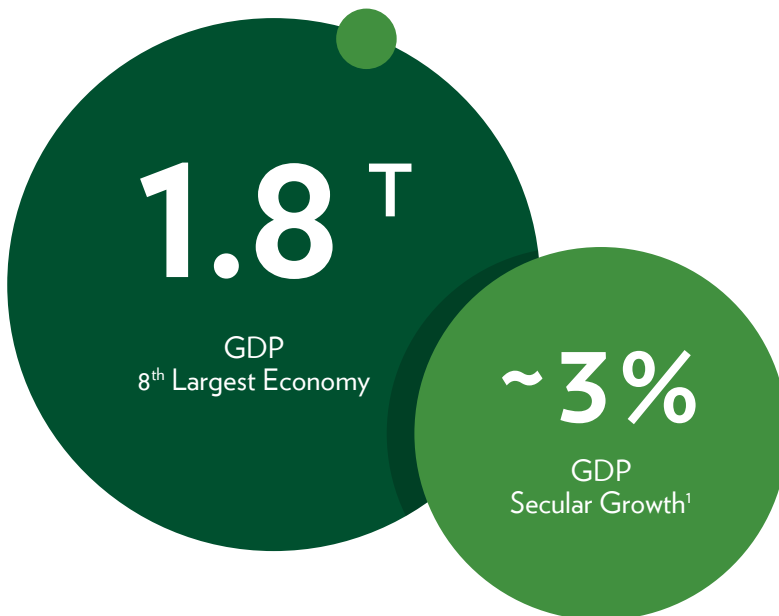
Consequently, IG4 does not foresee a sustainable growth of the Brazilian economy in the short term, especially like the growth we saw in the consumer goods and real estate industries in the past. We will see some recovery for sure, but the most likely scenario appears to be short spurts of stop-and-go growth.

F. Recovery of Brazilian Companies in Distressed Situations

Starting in 2015, Brazil recently experienced one of the worst crises in its history. From 2015 to 2016, approximately sixty-four (64) thousand companies filed for judicial recovery or bankruptcy. Banco Itaú, Banco Bradesco, Santander, Caixa and Banco do Brasil became the largest owners of foreclosed real estate assets in the country. There is not enough demand in the market to absorb the enormous supply of real estate assets that remain on the balance sheets of the main banks as quickly as is required. Furthermore, there are thousands of companies that remain in financial distress after several rounds of debts refinancing by their main creditors.

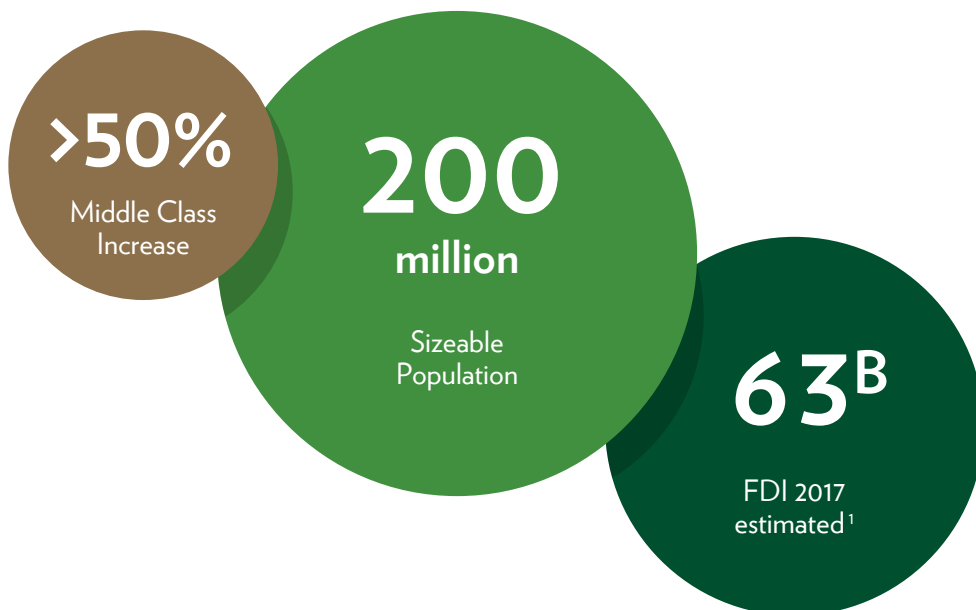
Brazil Investment Landscape

Strong Fundamentals



Investment Environment

- Credit market is insufficient to fund economic growth and private capital is key to the economic development
- Deepest economic downcycle combined with a long period of high interest rates resumed in 2017
- Deteriorated financial conditions of Brazilians companies
- Financial institutions have been accumulating NPLs willing to sell at relevant discounts
- Strong M&A activity with \$85 B in the last 3y (2016-18)²
- Limited dry powder from private players with no relevant fundraising activity over the last years



Source: Valor, Estadão and Folha de SP Journals

Source: World Bank. 1 Secular growth depicted in this analysis as the 25-year median GDP growth ending in 2015. FDI estimated from Banco Santander <https://en.portal.santandertrade.com/establish-overseas/brazil/foreign-investment>. 2 Source: EMIS, Valor, figures include full-year 2016, 2017 and 2018.

Brazil Investment Landscape

Strong M&A activity

~1,500

M&A deals completed
between 2016 and 2018

Substantial pipeline of sizeable
and attractive M&A

Increasing # of
companies in special
situations

~1,860

Companies under Judicial
Recovery in 2016¹

Almost doubled in
comparison to 2014

Brazilian companies
urgently need
capital restructuring

~81%

Debt as % of total capital
of the 500 largest local
companies

Vs. 60% in 2013

Insufficient credit
to fund economic
growth

~47%

Total credit market / GDP

Most developed economies
have a credit market
representing over 75% of GDP

Financial institutions
have been
accumulating NPLs

>\$120B

Non-performing loans on
banks' balance sheet

20% of that is corporate debt

Banks are not able
to recover the debt
by foreclosing
on guarantees

15.8%

Of total guarantees are
recovered in case of default

Vs. over 80% in most of
developed economies

Note 1: Despite the fact that the Brazilian Central Bank has yet to release updated figures, we do have indications that this number has remained stable and might even have increased.

Source: Internal Analysis IG4

Source: EMIS, Brazilian Central Bank.

Even though the main Brazilian banks remain profitable and sound – largely as a result of a strong regulatory framework that prevents systemic risk as well as significant concentration within the sector – they nonetheless need support to clean up their balance sheets.

The recovery process for Brazilian companies in distressed companies continues to be very slow, due to the fact that: (i) Brazilian banks cannot easily convert debt into equity and take control of companies and assets, (ii) controlling shareholders of distressed companies continue to struggle to keep control and stave off bankruptcy, and (iii) the secondary credit market in Brazil is still underdeveloped, especially for non-performing loans (“NPLs”).

The destruction of value in different sectors of the Brazilian economy is enormous. On top of that, creditors cut off funding to companies in distress that did not experience a change of control and or an injection of fresh equity, further deepening the crisis and postponing the economy’s recovery.

Therefore, IG4 understands that we will not see a short-term credit recovery for Brazilian companies and assets. Moreover, we should not see a robust increase in credit lending by Brazilian banks to the extent required in order to support robust growth in investment.

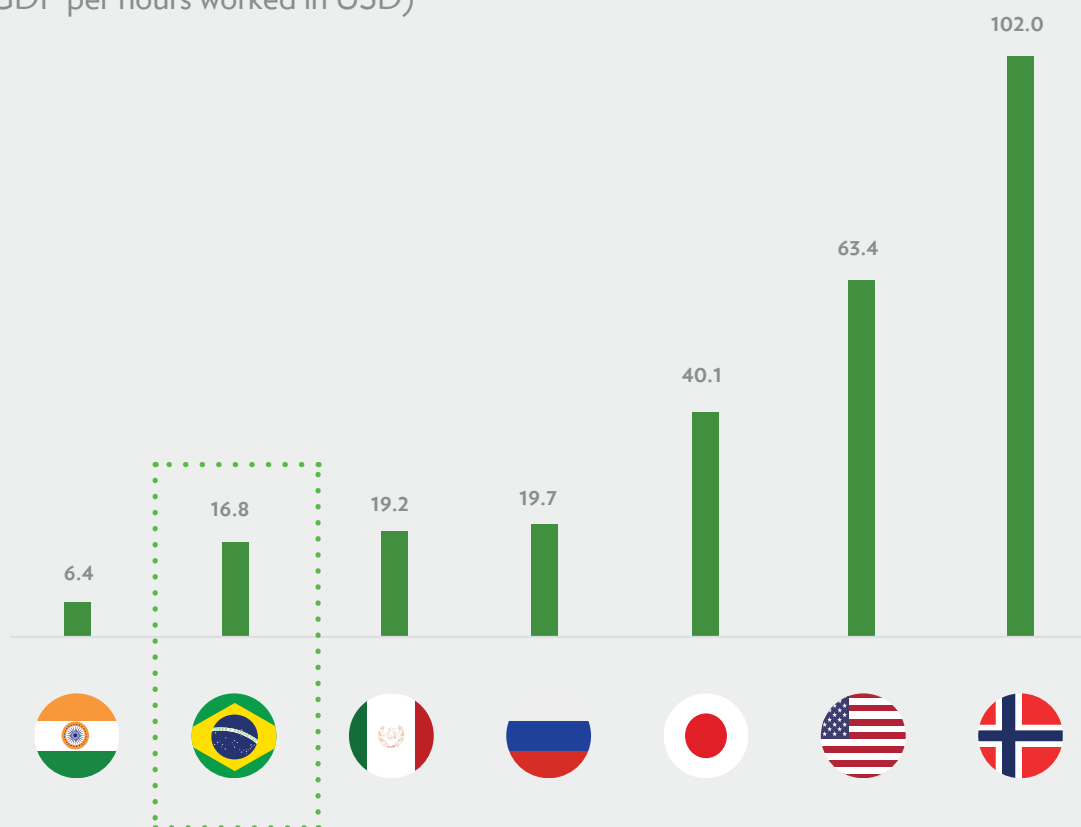
In this respect, IG4 continues to identify and pursue great opportunities to acquire solid companies and assets in distressed situations and or which require turnarounds in partnership with banks and bondholders. It is a market of opportunities that has been developing consistently and particularly in light of the fact that government efforts will not be felt for several years.

G. Education, Healthcare and Security

The productivity of the Brazilian labor force is low compared to developed countries and furthermore, it has experienced tepid growth. Even when compared to the BRICS, Brazilian productivity remains low.

Brazil’s productivity compared to other countries

(GDP per hours worked in USD)



The situation is getting increasingly complicated as the average age of the population increases and we approach the point when we will soon have more Brazilians exiting the labor market than entering it. This will create more and more pressure upon the social security system and reduces our capacity to grow our economy through domestic consumption.

A poor healthcare system and deep security issues in major urban areas have further undermined the productivity of Brazil's labor force, an important driver in the path towards sustainable growth.

President Bolsonaro's new government has promised to wage war on organized crime and violence in the major Brazilian cities. However, there are no concrete signs that we might see a relevant improvement in public policies towards education and healthcare.

Increased safety and less violence are critical to avoid the continued destruction of lives in Brazil, especially for the younger generation. However, without more structural reforms in the educational and healthcare systems, Brazil will not see a major change in the productivity of its labor force.

H. Environmental and Social

President Bolsonaro has been vocal in terms of environmental issues and during his campaign, he promised to reduce regulatory restrictions and costs for business. In particular, agribusiness - a strong supporter of Mr. Bolsonaro - may benefit from more lenient environmental regulations.

We may see changes in terms of reducing labor protection and social security costs; this has already begun under President Temer, but we may see deeper reforms being proposed by the new administration.

On civil liberties, Mr. Bolsonaro is known as a conservative, and during the campaign, adopted a position that does not seem to give weight to more liberal policies towards protecting differences and minorities.

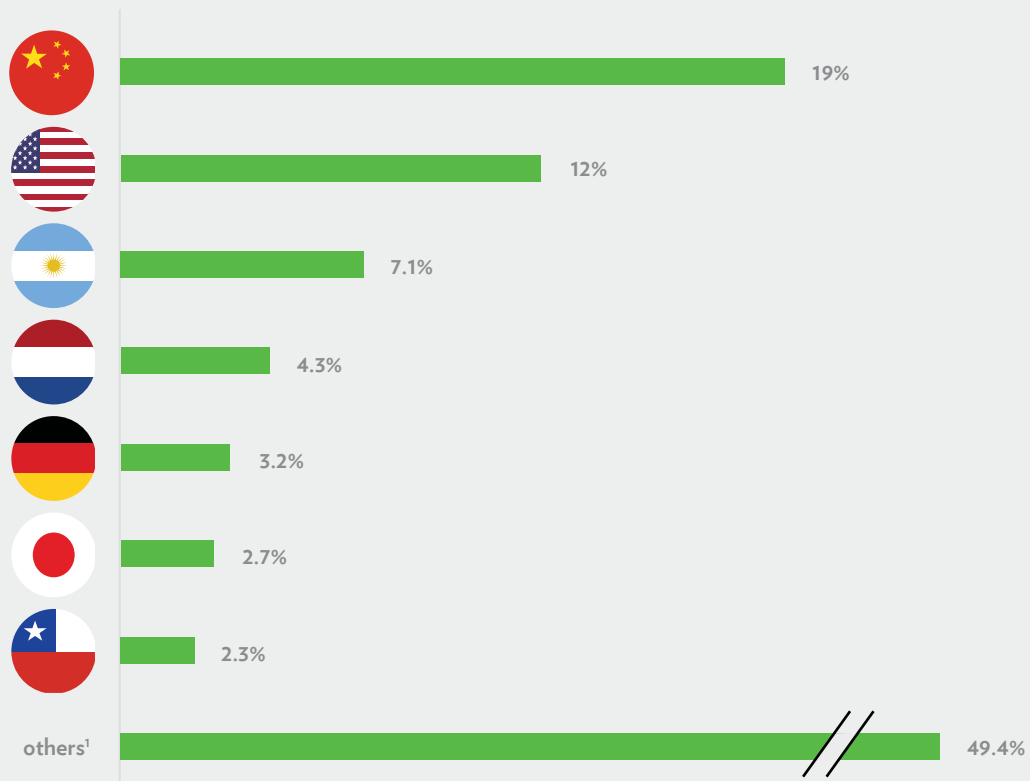
Even though his government might try to implement more restrictive reforms on environmental protection and social rights and liberties, it is unlikely that he will have a political majority in the Congress to pass disruptive reforms in this respect. Surveys recently undertaken regarding environmental and social issues demonstrated that Brazilians remain protective of those rights. Additionally, democratic values are still very important to Brazilians and the democratic system does not seem to be at risk of falling apart. Consequently, Mr. Bolsonaro is likely to face strong opposition from public opinion and the center-left parties in Congress if he tries to put forward harder reforms to change existing environmental and social protections and rights.

I. Foreign Policy and Geopolitics Between the USA and China

During the last ten years, China became Brazil's main foreign commercial partner, surpassing the USA, which was the main destination for Brazilian exports during the 1990s.

Brazil export destinations

Year 2017



Note 1: other countries with less than 2% share

Source: FGV

President Bolsonaro has been vocal in terms defending a stronger alignment with the USA, especially with regards to President Trump's foreign policies. To date, Brazil is not one of the countries that has been targeted by the USA's decision to raise important tariffs on steel and other goods. However, it remains to be seen if a better commercial relationship with the USA will result in increased investment for the Brazilian economy. For example, Brazil stands to potentially lose out if it is forced to take a side in the commercial dispute currently taking place between the USA and China.

As a big exporter of commodities to China, Brazil cannot afford to disregard China, a major commercial partner and investor in its economy. Considering agribusiness's support of Mr. Bolsonaro, the president will probably be pragmatic on this topic.

Possible impacts upon private equity and private credit investments

IG4 is probably less bullish than the current market consensus—which is currently talking about a “New Era”—regarding the ability of President Bolsonaro’s government to put forward a very reformist agenda that could result in Brazil’s resuming growth and transforming into a more efficient and sustainable economy.

Some reforms may pass, particularly in the first year of Mr. Bolsonaro’s term, but the new political coalition to be formed in Congress might not be strong enough to support his presidency throughout the entire term. The opposition from center-left parties will be significant, and public opinion might also be very vocal against some of the reforms he is proposing, especially if low income and poor Brazilians are not compensated somehow with increased social rights and protections.

As a result, IG4 does not believe that we will see consistent economic growth in the coming years. Given the fact that the Brazilian economy is currently very depressed, we expect to see some growth, but nothing higher than 2% per year on average.

We should also continue to experience foreign exchange volatility given the uncertainty of the reforms and President Bolsonaro’s weak political support in Congress. Additionally, Brazil might be negatively affected by international crises and disputes that might arise from a correction of prices between the USA and China.

Private equity and private credit growth strategies may continue to face execution risk in Brazil. More niche strategies focused on middle markets for consumption and real estate might also be tricky to implement. Agribusiness should continue to grow but might be hit by crises and disputes arising in international markets. The same should happen with other commodities. Infrastructure investments should grow in Brazil over the coming years, but greenfield strategies do not seem to deliver much higher returns when compared to more developed economies to the extent that they do not justify the risk-return profile. Access to and expansion of credit in the Brazilian economy will continue to be complex and costly.

On the other hand, we continue to believe that private equity and private credit investment strategies focused on de-risking solid assets, on buyouts of companies in special situations at significant discounts, on financial restructurings and on turnarounds requiring capital structure and operational improvements will remain very attractive in Brazil.

In a country with enormous informational asymmetries, governmental failures and volatility, IG4 prefers to continue to execute private equity and private credit strategies that do not depend on a sound macroeconomic environment in order to succeed. We believe that it is possible to buy and improve real assets and good companies here in Brazil, especially in partnership with banks that need help cleaning up their balance sheets.

Through our private equity and private credit special opportunities strategies, we seek higher returns with downside protection. In our experience here in Brazil, these strategies have proven to be less risky than growth, credit expansion, consumer-driven, or commodities-driven strategies.

If the Brazilian economy rebounds faster than expected, and President Bolsonaro's expected reforms succeed, we may see upside returns based on our special strategies. Furthermore, we may shorten our investment cycle (today, our holding period is on average four years) and exit earlier while providing even higher returns to our investors.

Disclaimer

This presentation and the information contained herein (together with copies and summaries thereof "the discussion materials") are being provided on a confidential basis for informational and discussion purposes only with respect to IG4 Capital and do not constitute an offer to sell or a solicitation of an offer to purchase any interest in the platform or any other investment opportunities offered by IG4 Capital or any other security. The opinions herein do not take into account prospective investors' circumstances, objectives or needs and are not intended as recommendations of particular securities, financial instruments or strategies to any prospective investors. Any such offer or solicitation shall be made only to qualifying investors, and only pursuant to the definitive documents of the platform (the "definitive documents"), which describe the terms applicable to the platform and certain risks related to an investment in the platform and which qualify in their entirety the information set forth herein. Such definitive documents should be read carefully prior to an investment in the platform. This Q&A does not constitute part of any such definitive documents.

The contents of this discussion materials do not constitute legal, tax, investment or other advice. Prospective investors should obtain independent advice based on their own particular circumstances before making an investment in any security. This q&a is intended for authorized recipients only and must be treated in a confidential manner. The information contained herein may not be reproduced, distributed, used or disclosed, in whole or in part, without the prior written consent of IG4 Capital. IG4 Capital does not assume any liability for unauthorized or fraudulent use of this presentation.



IG4 CAPITAL



IG4 Capital Investimentos

R. Leopoldo Couto de Magalhães Jr. 1098

6º andar Itaim Bibi 04542 001

São Paulo SP Brasil

T +55 11 2844 8036

IG4 Capital Advisors LLP

1 Ropemaker Street

11th floor EC2Y 9HT

London UK

T +44 20 8885 8472

IG4 Capital Inversiones

Isidora Goyenechea 3000 Piso 29

Las Condes 7550653

Santiago Chile

T +56 2 2592 6795

contact@ig4capital.com

www.ig4capital.com