



HEDGE / FUND AWARDS 2018

PRUDENT GROUP

SURFING THE WAVE OF BRAZILIAN CREDIT OPPORTUNITIES



A TEAM APPROACH TOWARDS NEW OPPORTUNITIES IN BRAZIL

★ FUND MANAGEMENT FIRM OF THE YEAR 2018: LATAM FOCUSED

In a recent interview with the Prudent Investment Fund's Brazilian team ACQ5 had a chance to discuss some of the key elements leading up to Prudent Group's ("Prudent") success.

Prudent focuses on short-term corporate lending in Brazil. Through financing a broad range of businesses, mainly in non-cyclical segments of the economy, the firm aims to create long-term mutually beneficial relationships with its borrowers and payees. This allows for the organization to develop products with a focus on a wide range of sub-segments, such as payment processing, mezzanine type financings, participation in the restructuring of the companies, as well as products with or without insurance wrappers, all to provide a multitude of investment alternatives to investors.

In order to better understand Prudent's offerings and newly developed strategies, *Jake Robson*, Editor at ACQ5, sat down with multiple different team members of the different lines of business in Brazil, including: Marco Mamari, Marcello Stewers, and Luiz Barbosa, to allow them to explain the opportunities they are faced with first-hand.



Q: PLEASE PROVIDE A DESCRIPTION OF THE SERVICES THAT PRUDENT OFFERS.

A: Collectively, Prudent Answered “Prudent offers international investors the possibility of significant investment returns in the Brazilian short-term corporate credit business and the organization runs regulated funds in both Luxembourg and Brazil to achieve this end. However, Prudent is not a hedge fund in the traditional sense of the term, as we solely invest in self-generated short-term corporate receivables through an operational business active in the Brazilian credit market.”

Q: HOW DOES IT FEEL TO HAVE BEEN SELECTED AS THE LATAM FUND MANAGEMENT FIRM OF THE YEAR 2018, AND HOW CAN IT BENEFIT THE COMPANY IN THE LONG TERM?

A: “The Prudent Family humbly accepts this award as a token of recognition of all the hard work put into creating a groundbreaking vehicle for international investors to access the highly lucrative Brazilian capital markets. We hope that the award will be recognized by the ACQ5 community and attract potential investors considering committing some Prudent investment capital. The award will further cement the long standing relationships that the firm has built with many of its borrowers, as well as introduce the firm to new investors, to further embrace the success.”

Q: CAN YOU FURTHER ELABORATE ON PRUDENT’S PRODUCT OFFERING AND HOW YOU STRIVE TO DIFFERENTIATE YOURSELF FROM OTHER PLAYERS IN THE SPACE?

A: “Prudent’s ability to differentiate itself from similar firms in the industry has attributed to the recent success the team has experienced. Additionally, by increasing the number of interaction points with its clients and borrowers, Prudent has been able to identify new product opportunities. This, combined with a culture focused on product innovation, allows Prudent to secure long-term financing counterparties as we seek to grow with our clients. The ambition is to become more of a one-stop shop. With the help of different specialist teams, the group has been successful in gaining the trust and confidence of 1000’s of companies that consider Prudent a worthy option to engage with.

Additionally, Prudent’s borrowers are very pleased with our current offerings, execution, and appreciate the long-term approach we take in building our relationships. Many of the borrowers have formed business alliances with our staff members dating back some 10-20 years, which makes Prudent “their first call”. As Prudent has grown, we have been lucky enough to acquire talented and seasoned veterans with a deep understanding of the market dynamics and the competition. Through leveraging the talent that has been brought aboard, Prudent will continue to improve our offerings with the goal of becoming a staple in the Brazilian short-term lending market.”

Q: WORKING WITHIN SUCH A FAST-PACED INDUSTRY, HOW DOES THE TEAM ENSURE THAT PRUDENT REMAINS ON THE CUTTING EDGE OF ANY NEW DEVELOPMENTS?

A: “In order to stay ahead of other asset managers and exogenous economic and political variables, Prudent is constantly evaluating our current positions, investment processes, and assessing new strategies that fit our investor’s needs. For example, in the last year Prudent has managed to enter the extremely profitable Brazilian credit card receivables business and created our own eco-system of card terminals, payment processing, and receivables discounting, through which we are creating a possibility for the

merchants to get rid of their banks.

This business is run through a separately regulated FIDC, in which the Luxembourg SICAV SIF, the Prudent Investment Fund, is the sole investor. Within short, a separate Payment Processing Fund will be made available for the investors that want to partake in this rapidly evolving market segment in Brazil. This initiative is spearheaded by our colleague Marco Mamari, who will speak further to the strategy and the team put in place to navigate through this exciting opportunity.”

Q: MARCO, CAN YOU PLEASE SHARE SOME OF YOUR BACKGROUND AND OUTLINE THE BASIC BRUSHSTROKES THAT SHAPES THIS OPPORTUNITY IN THE CREDIT CARD MARKET IN BRAZIL?



MARCO MAMARI

A: In Reply, Marco Mamari Answered “During the last 20 years I have gained a diverse experience working in many business areas with several multinational companies, such as KPMG and E&Y. Later, I specialized in digital services, payment cards, and services for the payment market with a focus on strategy, product, marketing, and communications related issues. Over time, I was also involved in creating a couple of startups in Brazil and the United States. This taught me how crucial it is to see beyond what is being offered to the public today and understand what the customer will need tomorrow.

While working for Edenred Group, my team started a financial services company for the purpose of exploring opportunities in the credit card space. In another business unit we established and implemented the objectives of the corporation’s business strategy, resulting in 144% growth over four years. Being a part of this growth, I was able to experience the importance of tailoring product and service offerings, establish robust distribution channels, and internal checks and balances.

Brazil is already the largest credit card market in Latin America, with over a trillion BRL (approximately 300 Billion USD) in card sales in 2017. Despite this, it is easy to forecast that these large growth numbers are going to continue as more and more Brazilians have access to banking products as the economic cycle turns. Currently, the average Brazilian family only spends 30% of their total consumption through card purchases, whilst the government is encouraging increased spending in order to

decrease the circulation of cash. We foresee the credit card market in Brazil growing 30% yearly on average during the years ahead.”

Q: FOLLOWING THE RECEIPT OF ACQ MAGAZINE’S GAMECHANGER OF THE YEAR AWARD 2017, PRUDENT GROUP IS READY TO LAUNCH A BOLD NEW VENTURE. AFTER A YEAR OF TRIALS, RESEARCH, AND MAKING CONNECTIONS WITH HIGH-END CUSTOMERS AND LEADERS OF THEIR SEGMENTS, THEY ARE PREPARED TO ESTABLISH THEMSELVES IN THE MARKET OF SUB-ACQUIRER, SEAMLESS BANKING, PRE-PAID CARDS, AND PAYMENT PROCESSING IN BRAZIL. MARCO COULD YOU PLEASE ELABORATE ON THIS STRATEGY?

A: “From an outsider’s perspective this market might seem saturated but for those of us active in the market, I realize this is not the case. We wouldn’t be involved in this if that was the case. The last research by IBGE in Brazil indicate that more than 50% of the active workforce over the age of 18 do not have a bank account. This means that more than 60m people are currently conducting their daily financial transactions outside of the normal banking system while spending some USD 200 Bn per year. As such, there is a lot of potential for this market to grow and that is why investments in this market will double in the next couple of years.

SCF, which manages this strategy within the Prudent Group, has been looking into this for many years. Since 2010, due to new regulation from the Brazilian Central Bank for the acquirers in the market, Brazil has been craving financial services that can more comprehensively fulfil the needs of customers and businesses alike.

The key is to provide a service that caters to the requirements of entrepreneurs who need their banks to be more than just a place to make deposits and payments, rather an institution that cares for the success of their customers and can offer tools to help them accomplish their goals. A lot of times, in order to be an

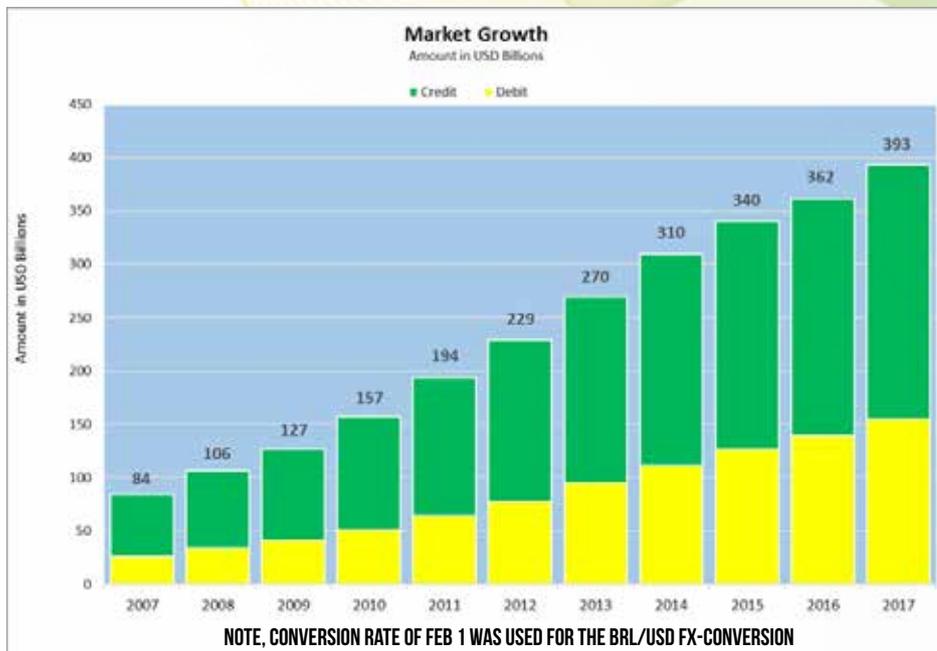
businesses. After only one year since inception, we now have thousands of our own point of sales machines and are growing 20% monthly.

With the help of a high level staff and communication team, we will bring this new product to market. It is an exhilarating moment for us, we can’t wait to show the world what we have in store! This venture will leverage our current business in the region and propel us to new frontiers. We hope new investors will come to surf with us on this wave of prosperity and growth here in Brazil. We are positive that our services and features will surprise our customers, but more than that, by using our services, they’ll be able to grow and amaze themselves.’

Q: WHAT ELSE IS NEXT ON THE HORIZON FOR THE PRUDENT GROUP?

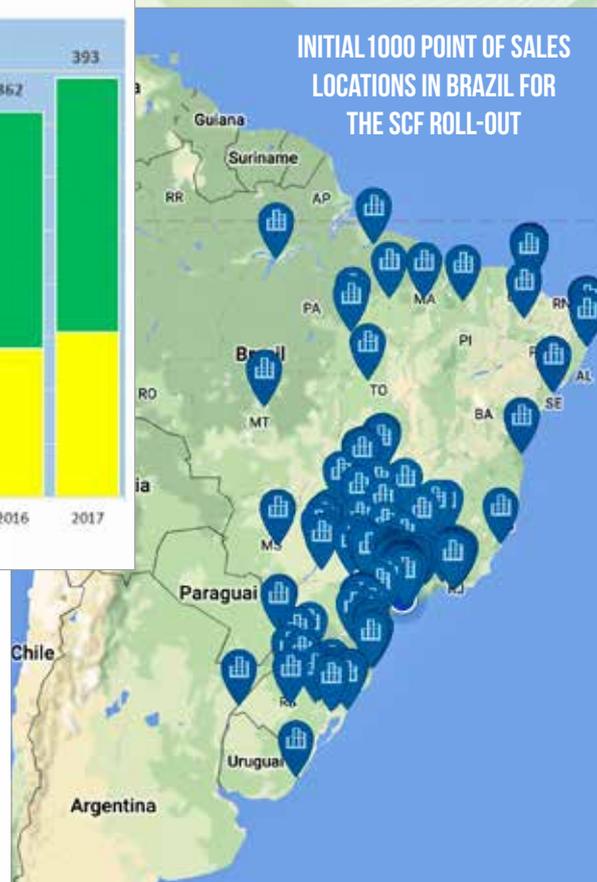
A: Again, Collectively “Throughout the company, the team believes that by expanding its geographic and product footprint in Brazil, both Prudent and its borrowers can benefit from our local presence and close culture. Currently, the firm has local Sales Teams in three main locations, two in Sao Paulo and one in Porto Alegre, as well as representatives in multiple other locations.

Another of the emerging opportunities that the organization is gearing up for is packaged in a new product called the Mezzanine Opportunity Fund. This product will focus on companies that are coming out of the last few years of financial crisis in Brazil with a lot of “scar tissue”. A more than 50-man strong team will be involved in effectuating this strategy and guide these companies through their rough patches and back to financial success. This team will be led by Marcello Stewers, who brings over 20 years of experience leading companies through the restructuring process. During his career he has held many advisory and restructuring type of positions spanning across most sectors and company sizes. Marcello leads a team that brings great depth, understanding, and proven historical success to this fund.”



entrepreneur in Brazil, one needs to be a jack of all trades, and to do that, one could surely use a helping hand. To us, this is obvious, if our customers grow and succeed, they’ll use our services more.

Because the major banks and acquirers are focused on scale, they are slower to react and haven’t been able to provide the specialized services the market demands. The goal of this team is to offer a series of services that will help business owners to get better control, organize, plan, project, and market their



Q: MR. STEWERS, HOW WOULD YOU DESCRIBE YOUR TEAM'S ROLE IN THIS NEW PRODUCT OFFERING?

A: Marcello Stewers Believes "Prior to the fund deploying any capital to this strategy, my team and I will evaluate each candidate for an extensive period of time. After the preliminary analysis is complete, we insert at least two people in key operational positions, including (but not limited to): CFO, Corporate Controller, and Accountant(s). Together with the Fund, we will finance the production of specific orders, manage the corresponding receivables, and partake opportunistically in different equity purchase and/or conversion transactions. The latter of which will be executed in close correspondence with the integrated Corporate Finance and M&A team, led by" Luiz Barbosa, the former head of Emerging Markets at Bank of America and Nomura.



MARCELLO STEWERS

Q: MR. BARBOSA, WHAT IS YOUR TEAM'S OBJECTIVE WITH RESPECT TO THE MEZZANINE OPPORTUNITY FUND?

A: Luiz Barbosa Firmly Understands "My team's objective will be to analyse, advise, and assist in the effectuation of any equity transaction contemplated by the Mezzanine Opportunity Fund. Additionally, we will strive to access international capital markets to find strategic buyers for the respective companies in the portfolio. The team will be actively identifying, monitoring, and evaluating attractive exit points to achieve the most profitable realization for the Fund and its investors. At Prudent Group, we view this as a chance to combine the many different areas of competence that we are fortunate to have in-house and utilize these resources to develop an attractive product offering for our investors."

Q: AS WITH ANY INDUSTRY, THERE ARE ALWAYS CHALLENGES SPECIFIC TO THE MARKET THAT EVERY COMPANY MUST OVERCOME IN ORDER TO BE SUCCESSFUL. CAN YOU SPEAK ABOUT SOME OF THE HEADWINDS THAT THE PRUDENT GROUP, OR THE INDUSTRY AT LARGE, ARE FACING?

A: As a Group "Fundamentally, the bureaucratic red tape is increasingly stifling and costly. Furthermore, investor's flight to the largest money managers is creating a highly concentrated and



LUIZ BARBOSA

competitive landscape. At Prudent, we are hoping that investment excellence soon again will be determining allocations, rather than the sheer size of the manager's AUM."

Q: WHAT ARE THE GOALS AND KEY AMBITIONS FOR THE PRUDENT GROUP IN THE FUTURE?

A: In Closing "Moving forward, the goal for Prudent is to identify and effectuate highly scalable, repeatable, and defensible transactions while utilizing downside risk mitigation strategies, such as insurance, over-collateralization, and extensive client monitoring. However, needless to say, our colleagues and partners are the key to our success. Lending is a tricky business and we have had the good fortune of being able to utilize the recent Brazilian economic slump to lure over highly seasoned professionals when building out the Prudent team. Most of our Senior Associates have more than 30 years of industry experience and bring a wealth of knowledge, endless contact networks, and a good eye for sensible business transactions for us to pursue. Additionally, Prudent strives to build close and strong co-operations with many of its service providers, which has proven to be valuable in the efforts to optimize our administrative processes and ensure maximal efficiency."

Over time we will pursue our quest to identify profitable alternative type of investment strategies to meet investors demand for high stable return products. We welcome all ACQ5 readers to join us on our journey and become part of our investment family.

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