

ISSUER COMMENT

27 September 2018

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Neo Investimentos

Manager Quality Analysis

Assessment Rationale

Assessment: MQ2 (Very Good)

Moody's assessment of [NEO Investimentos \(NEO\)](#) is MQ2 (Very Good). NEO Investimentos is an independent asset manager in Brazil with BRL3.2 billion (approximately US\$837 million) of assets under management as of 30 June 2018. The MQ2 assessment reflects Moody's view of the asset manager's very good management characteristics.

The MQ2 assessment is primarily based on: (i) the company's disciplined investment process, (ii) the high level of expertise and qualifications of its professionals, (iii) the solid risk-adjusted performance of its funds, (iv) risk management controls – a key differential relative to peers, and (v) its robust private equity capabilities. The assessment is constrained by: (i) growth challenges considering the competitive landscape, and (ii) volatility of assets under management.

Recent Developments

In the first six months of 2018, NEO Investimentos experienced BRL662 million of net inflows, concentrated in multimarket and equity segments. Flows into these segments have been strong, given the lower interest rates in the country that prompted a net flows shift from fixed income to multimarket and equity funds. NEO has been able to grow its assets under management since 2014, after some volatility in previous years.

NEO Investimentos continues to achieve very strong risk-adjusted returns in its equity and multimarket funds. Moody's notes that the ability to sustain its risk-adjusted performance is a key factor in support of the MQ2 assessment.

Asset Manager Overview

Exhibit 1

Asset Management Entity

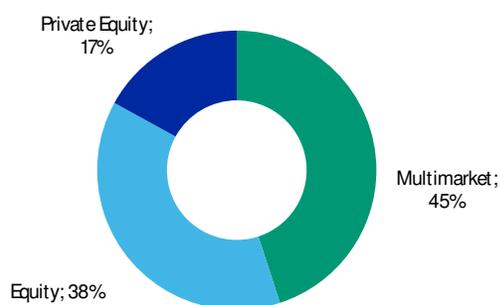
Name	NEO Investimentos
Commencement of Operations	2003
Moody's Assessment	MQ2
Assets Under Management (June/18)	BRL3.2 Billion (US\$837 Million)
	88th largest Manager in the country (0.1% market share)
Headcount	41 (24 directly involved in investment management activities)

Source: Moody's Investors Service

Headquartered in São Paulo, Brazil, NEO Investimentos is an independent asset manager. Established in 2003, the company is a provider of alternative investment vehicles, including private equity, multimarket, and long-only funds and that seek consistent long-term performance and capital protection.

Exhibit 2

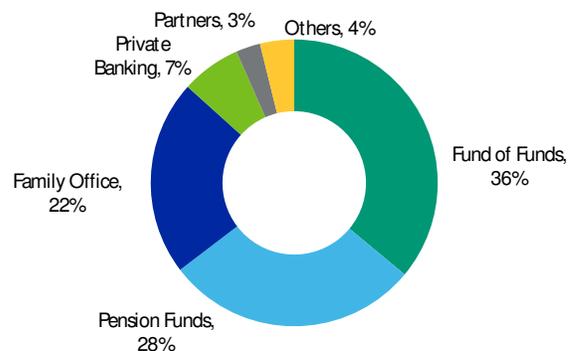
Assets Under Management By Fund Type



Source: NEO Investimentos

Exhibit 3

Assets Under Management By Investors Type



Source: NEO Investimentos

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Factor 1 – Investment Management Activities

Investment Methodologies:

We consider NEO Investimentos' investment identification process, the quality of its asset allocation processes as well as its capacity to match a fund's objective with an investment strategy as positive factors when evaluating the company's investment decision process. NEO Investimentos' disciplined investment process involves top-down and bottom-up approaches, supported by macroeconomic analysis combined with risk control. The company seeks favorable risk reward asymmetries, where potential rewards are greater than potential losses. For the multimarket funds, the investment process involves the analysis of the macro and micro-economic environments and the definition of a base case and alternative scenarios. The analysis is supported by risk metrics analysis, including volatility, Information ratio and Sharpe ratio, for each trade and each strategy and the evaluation of the contribution of them to the risk of the overall portfolio. For equity funds, NEO Investimentos defines the sample of investable companies after filtering for liquidity and sectors. The investment team defines scenarios and discusses how companies would respond to each of them. The selection of securities involves the evaluation of corporate governance and their respective upside potential. For private equity funds, the investment process involves the definition of the sample of target sectors and companies based on qualitative and quantitative factors, such as analysis of attractiveness of the industry, corporate governance and quality of management. The investment process also involves face-to-face meetings with target companies and full valuation supported by the companies' management inputs and strategic information.

Risk management is an integral part of NEO's investment management activities. The risk management team consistently and strictly monitor the set guidelines and exposure limits, considering expected shortfall, information ratio, stress test, as well as liquidity risk. Moody's notes that NEO Investimentos has a robust risk management system and methodologies – a key differential relative to main peers – that supports a high quality control environment.

Investment Infrastructure:

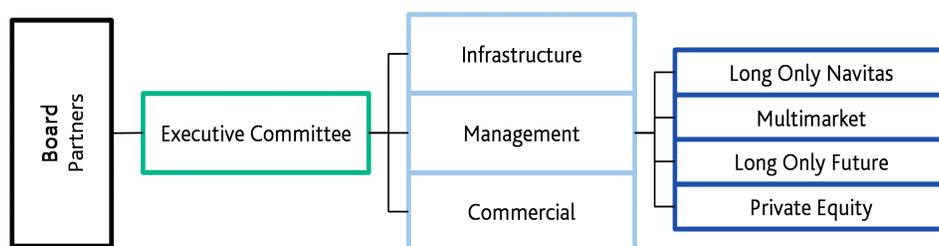
NEO Investimentos has a very good investment infrastructure, with real time portfolio management systems. There is a formal contingency plan and a couple of offsite backup tests are performed annually. We consider that NEO Investimentos has a very low exposure to business interruption risk.

Organizational Structure:

NEO Investimentos' asset management business is comprised of 41 employees, 24 of which are directly involved in investment management activities. The company has a qualified team of professionals, with extensive management experience. The company's partners have solid investment experience and main partners have been working together for more than 20 years.

Exhibit 4

Organizational Structure



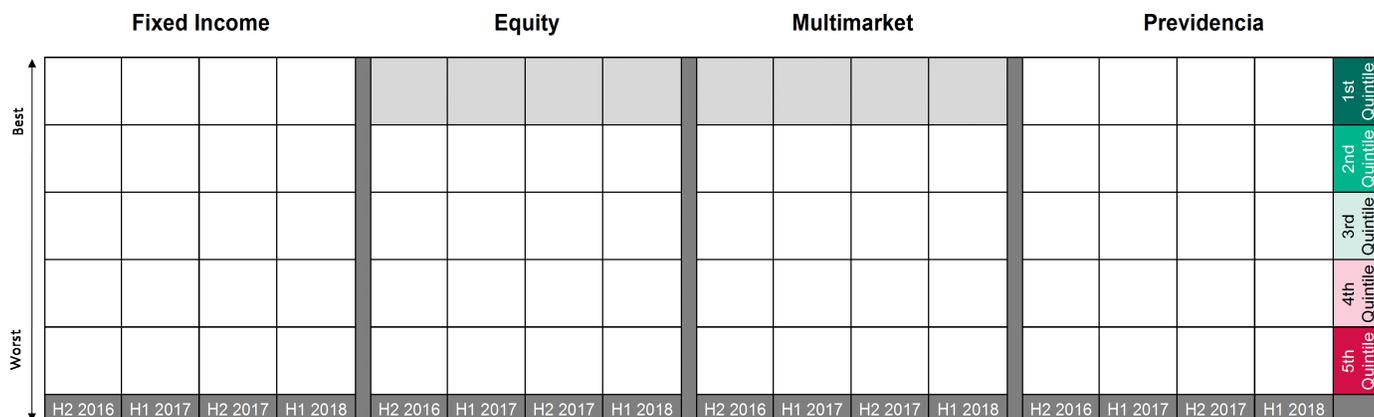
Source: NEO Investimentos

Factor 2 – Investment Results

Investment Skill and Risk (*):

NEO Investimentos' Investment Skill and Risk scores are very strong and funds have shown good risk-adjusted performance relative to local benchmarks and local peers. In the equity and multimarket segments, the company's risk adjusted results remained the same from last semester and the company maintained its position in the 1st quintile. Funds in these segments have generally outperformed the benchmarks and local peers. Overall, Moody's views the company's investment performance to be very strong and supportive of an MQ2 assessment.

Exhibit 5



*Based on the following metrics and weights: Information Ratio (55%), Merton Skill (17%), Alpha (13%), Sharpe Ratio (7%), beta (5%) and Maximum Drawdown (3%). Further details on Appendix 1.

Source: Moody's Investors Service

Factor 3 – Financial Profile

Revenue and Profitability Levels and Stability:

NEO Investimentos has consistently reported solid financial metrics, and its operating profit margins continue to be strong. Conversely, volatile growth in assets under management over the years has translated into moderate volatility in revenues and profits. That said, NEO Investimentos has a robust private equity capability, which provides a stable source of revenues and supports the company's financial strength. Additionally, the solid performance of the funds, allowing for performance fees being retained by the asset manager, also contributed to the company's financial profile.

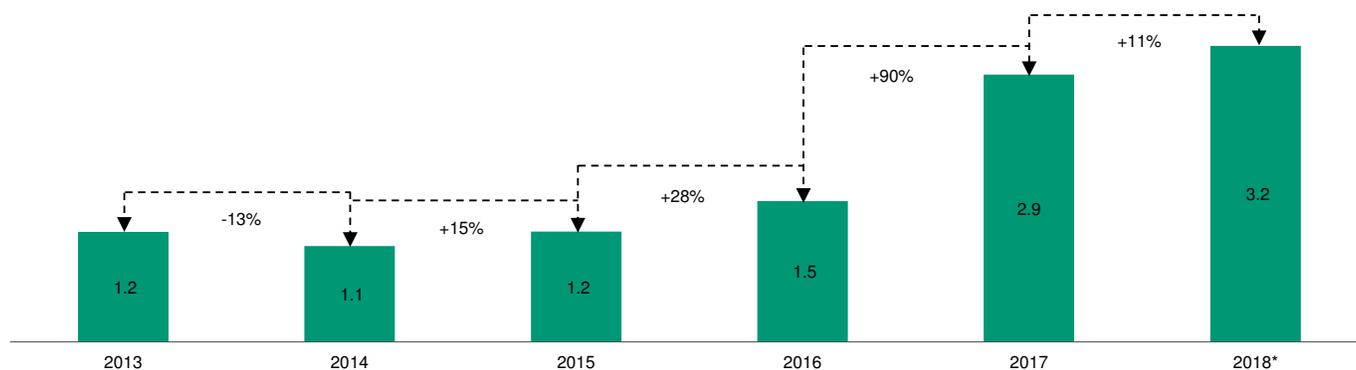
Corporate Organization:

NEO Investimentos is organized through a partnership. Controlling partners are mostly composed of founders of the company. Moody's notes that the partnership program is an important employee retention mechanism.

Assets Under Management:

NEO Investimentos has a relatively concentrated product offering, with multimarket and equity being the main products. NEO Investimentos' client base is relatively diversified, with the main investors being fund of funds and pension funds. Moody's notes that NEO has been able to consistently grow its assets under management since 2014.

Exhibit 6
Assets Under Management
 BRL Billion



Source: NEO Investimentos

Factor 4 – Client Servicing

Retention and Replacement of Clientele:

NEO Investimentos has a moderate client retention, with moderate rates of client turnover, due to net outflows in recent years that negatively impacted these metrics. The company's replacement rate, measured by the percentage of assets lost that are being replaced by new subscriptions from investors, is also moderate.

Other Considerations

What Could Change the Assessment – Up

- » The company sustains its risk-adjusted investment results over a long period
- » The company's total assets under management and revenues demonstrate strong and sustainable growth

What Could Change the Assessment – Down

- » The company's funds risk-adjusted investment performance deteriorates significantly – both relative to peers and local benchmarks
- » The funds experience a substantial decrease in assets under management
- » There are significant deviations in the firm's investment processes, which increase exposure to operational risks

Appendix: Investment Performance Measurement

1. Fund Sampling:

The SI-ANBID database includes a large number of active mutual funds (about 14,400), and we selected a sample funds that met some pre-determined criteria for use in our historical performance analysis:

1. Fund Segments: narrowing the sample down to the most popular mutual fund segments among investors, we selected the following segments: Equity, Fixed Income, Multimarket ("Multimercado") and Previdência¹.
2. Length of Existence: we only considered mutual funds that have traded for at least three years.
3. Fund Size: only funds with a minimum of BRL25 million in total assets as of June 30, 2018 were included in the sample.

After filtering, we came up with a sample of 1,030 funds.

2. Performance Measurement

We analyze the historical risk-adjusted return performance achieved by individual products or representative portfolios of like funds across assets, offered by the firm. The analysis, covers a three-year period. Results are aggregated, compared to a universe of similarly managed products, and scored on the basis of quintile ranks. The firm's ranking in each segment is the average score of all performance metrics weighted by AUM.

In the case of risk-adjusted performance results, we compute the median three-year Sharpe Ratio using monthly total rates of return for a representative sample of portfolios. The median Sharpe Ratio is then compared to a distribution of Sharpe Ratios stratified into quintiles for local peers.

In a similar fashion, we extend this form of analysis to the other key risk measures including Maximum Drawdown, Beta and R2. To this, we add measures of manager skill, including such key measures as Alpha, the Information Ratio and the Merton Skill Measure.

Basic Measures Used to Evaluate Investment Results, Risk, and Manager Skill:

Alpha measures the difference between a fund's actual returns and its expected performance, given its level of risk (as measured by beta). It can be used to calculate the "skill" of a fund manager.

Beta is a measure of a fund's volatility relative to the market, which for stocks in the US, for example, may be represented by the S&P 500 Index.

The Sharpe Ratio measures the fund's risk-adjusted return. It is the portfolio's average return in excess of the risk-free rate divided by the portfolio's standard deviation.

R2, or the R-squared value, is the fraction of variance in the dependent variable that is explained by variance in the independent variable.

The Information Ratio is the ratio of a manager's excess return (Alpha) divided by the standard deviation of that excess return. It is a measure of the value added by an active manager.

The Maximum Drawdown is the worst period of "peak-to-valley" performance for a fund or other investment vehicle, regardless of whether or not the drawdown consists of consecutive months of negative performance.

The Merton Skill Measure is a returns-based measure of market timing skills that includes a ratio of unsuccessful to successful "down market" calls.

Endnotes

¹ Previdência is represented by open pension plans (PGBL and VGBL). The plans may be operated by insurance companies, bank's subsidiaries and non-profitable organizations and can be contracted out by enterprises as fringe benefit to their employees or, more commonly, contracted directly by individuals. This pension scheme is somewhat inspired by the North American 401k experience.

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