

EQUITY INVESTMENT IN THE SANTA CATARINA EQUITY INVESTMENT FUND FOR TECHNOLOGY-BASED START-UPS

(TC-00-05-04-4)

EXECUTIVE SUMMARY

Executing agency: The Santa Catarina Equity Investment Fund for Technology-based start-ups (SCTec, the “fund”), established in Brazil and regulated by the CVM. The fund’s projected maximum capital will be R\$24 million (USD 13.3 million) over a 10-year maximum lifetime.

Objectives: **Financial objective:** The fund’s financial objective is capital appreciation through temporary, minority-stake equity and quasi-equity investments in technology-based start-ups and small enterprises that have great economic potential and technologically innovative products and processes.

Development objectives: The fund will help grow the economy of the state of Santa Catarina and be its principal source of venture capital. It will help expand small, technology-based enterprises that have a sound business plan, and will be instrumental in creating jobs.

Financing: The MIF is planning to invest up to approximately USD 3.3 million (R\$6 million) in the fund, with a cap of 25% of the total pledged capital provided that private investment matches the MIF contribution (1:1).

The fund’s initial capital would be a minimum of approximately USD 6.6 million (R\$12 million), which could double to approximately USD 13.3 million (R\$24 million) if 80% of the capital is invested by the end of the fund’s investment period. The MIF’s involvement in this expansion will be also contingent upon matching private investments (1:1). The capital would initially be structured as follows:

<u>Investors:</u>	<u>Amount (R\$ million)</u>
Pension funds:	3 (25%)
MIF:	3 (25%)
SEDBRAE/RS:	3 (25%)
BNDESPAR:	3 (25%)
Total:	12

Description: Under the project, a venture capital fund (SCTec fund, referred to as the “fund”) will be established that will make equity and quasi-equity investments in start-ups and small enterprises¹ whose products and processes involve innovative technology. The fund will invest exclusively in small enterprises in the state of Santa Catarina. The fund’s investments will be diversified among a number of technology sectors: software, telecommunications, Internet, materials, precision technology, and so on. The fund will be investing in 30 enterprises in its first four years in operation, with the average investment being R\$400,000 (approximately USD 222,000).

The fund’s investment manager, Companhia Riograndense de Participações (CRP), is Brazil’s most experienced firm with venture capital and has uncovered good investment opportunities for the other funds that it manages (CRP, Caderi, RSTec). It also has the support of the prestigious CERTI foundation, which develops management and technology programs with business applications.

The CERTI foundation is located on the campus of the Santa Catarina Federal University and is a member of local and international technology associations and agreements, a valuable source of experience in technology-based small enterprise. The CERTI Foundation manages CELTA (Centro Empresarial para Laboração de Tecnologias Avançadas) [Business Center for Advanced Technology Development], an incubator of some of Brazil’s most successful technology-based industries. CELTA has incubated more than 30 industries: 40% are in micromechanics/microelectronics, 40% in software, 10% in the Internet sector and 10% in telecommunications.

The fund’s investment manager will also have the support of the SEBRAE system in Santa Catarina, to provide business support services to the industries in its portfolio, including: technology- and management-related consulting services, and market research and development.

The purpose of the fund will be to invest in enterprises that produce returns in excess of 25%, that create jobs, help develop the local technology sector, and meet local and IDB/MIF labor and environmental standards.

Management: The investment manager that will run the fund will be Companhia Riograndense de Participações (CRP), headquartered in Rio Grande do Sul. In 1981, a group of private enterprises in the state of Rio Grande do Sul (Participações Riograndenses PARGS S/A) teamed up

¹ To qualify as small, a business must meet two of the following three criteria: have no more than USD 3 million in sales and/or assets and fewer than 100 employees.

with two development banks operating in Rio Grande do Sul – the Regional Development Bank (BRDE) and the Rio Grande do Sul State Bank (BANRISUL) – to create the CRP to manage venture capital investment funds for small and medium-sized enterprises.

The CRP has been a pioneer in managing venture capital investments in Brazil and the only one to target the early stage/start-up sector of small enterprise. At the present time, the CRP is managing a venture capital fund whose investors include the IIC (Caderi) and an equity investment fund for technology-based industries (an emerging enterprise mutual fund or EEMF) whose investors include the MIF (RSTec). The CRP is the most experienced venture capital fund manager in Brazil's southern region.

The CRP has played an important role in shaping policies to consolidate the venture capital industry in Brazil, and was particularly instrumental in developing the CVM regulations for mutual funds that invest in start-ups.

**Environmental
and social
review:**

The fund's investment manager (CRP) will follow operating rules that are consistent with local and IDB/MIF environmental and labor standards. The CRP has already received a technical-cooperation from the MIF to develop environmental guidelines for the RSTec fund (prepared by the ENGEPIO consulting firm) for the RSTec Fund and has staff trained in this area. Any new staff added to the SCTec team will have to be properly trained as well, for instance by participating in the environmental training courses periodically sponsored by the IIC and the MIF respectively for IIC or MIF fund administrators. The fund's investment manager will be proactive in its environmental monitoring procedures and will provide technical consulting services on any environmental or social issues that may arise in the enterprises in the fund's portfolio.

**Special
conditions:**

The fund will be established in Brazil as an equity investment fund for technology-based industries (emerging enterprise mutual fund or EEMF) regulated by the Securities Exchange Commission (CVM) under rule 209. Disbursement of the MIF funding and that of the other investors will be contingent on establishment of the fund.

The fund's initial capital will be a minimum of approximately of R\$12 million (approximately USD 6.6 million), which could double to R\$24 million (approximately USD 13.3 million) if 80% of the capital is invested by the end of the fund's investment period. The MIF's involvement in this expansion will be contingent upon matching private investments (1:1).