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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Patria First Quarter 2021 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Josh Wood, Head of Shareholder Relations. Please go ahead.

Josh Wood - *Patria Investments Limited - Head of Shareholder Relations*

Thank you. Good morning, everyone, and welcome to Patria's First Quarter 2021 Earnings Call. Joining on the call today are our Chief Executive Officer, Alex Saigh; and our Chief Financial Officer, Marco D'Ippolito.

Earlier this morning, we issued a press release and earnings presentation detailing our first quarter 2021 results, which you can find posted on our Investor Relations website at ir.patria.com, or on Form 6-K filed with the Securities and Exchange Commission. Any forward-looking statements made on this call are uncertain, do not guarantee future performance, and undue reliance should not be placed on them. Patria assumes no obligation and does not intend to update any such forward-looking statements. Such statements are based on current management expectations and involve inherent risks, including those discussed in the Risk Factors section of our Form 20-F annual report filed last month.

As a foreign private issuer, Patria reports financial results using international financial reporting standards, or IFRS, as opposed to U.S. GAAP. Additionally, we will report and refer to certain non-GAAP industry measures, which should not be considered in isolation from or as a substitute for measures prepared in accordance with IFRS. Reconciliations of these measures to the most comparable measures calculated in accordance with IFRS are included in our earnings presentation.

As a quick overview of the results, Patria generated $13.1 million in IFRS net income in Q1 '21. On key non-GAAP measures for the first quarter, fee-related earnings were $17.3 million and distributable earnings were $17 million or $0.125 per share. In alignment with our policy, we declared a dividend of $0.106 per share payable on June 16 to shareholders of record as of June 2.

With that, I'll now turn the call over to our Chief Executive Officer, Alex Saigh. Alex?

Alexandre Teixeira de Assumpção Saigh - *Patria Investments Limited - CEO, Senior Managing Partner & Director*

Thank you, Josh. Good morning, everyone, and thank you for joining us today. We are very pleased with our first quarter results, which reflect solid execution across our investment platform. We are not only on track, but also leveraging current opportunities to deploy and commit larger amounts of capital into new investments, which accelerates our progress on key growth drivers for the firm.

Our portfolio companies are performing very well, demonstrating the resilience of our investment approach and our ability to deliver outstanding returns to our LPs through many different environments.

In private equity, we are delivering 750 basis points of outperformance relatively to the emerging markets benchmark, and our portfolio companies have capitalized on recent opportunities from consolidation, completing a total of 34 M&A transactions in 2020, for example.

In infrastructure, our investment opportunity is vast, and we have mapped about $80 billion in long-term development needs across Latin America, especially in Brazil, Chile, Colombia and Peru. We are seeing record levels of government concessions, and Patria is well positioned to be a selective bidder and win projects with very attractive return profiles.

Now, clearly the entire world is emerging from a health and economic crisis, and Latin America is emerging along with it. The latest pandemic data shows encouraging trends, suggesting that we may have turned a significant corner with new cases and deaths both receding significantly from their highs in late April. There has also been substantial progress in the immunization programs, with over 110 million vaccines given in the region. There's no question the second wave and recent environment has been difficult for society and many businesses. And regional macro concerns have clearly weighted on Patria's shares in the last few months, alongside other companies with exposure to the region.

While we cannot control these externalities, what can we do? We can continue to outperform. I want to emphasize the fundamental resilience of Patria's business model and the impressive investment performance we are delivering. Over 3 decades, we have been fundraising, deploying capital and generating attractive and, in most cases, top quartile returns for our LPs, while navigating through many different environments. Over that time, we have faced, dealt and learned to take advantage of the volatility in Latin America.

Our returns have enabled us to raise several vintages. For example, for our 2 flagship funds, we are in vintage #6 for private equity and vintage #4 for infrastructure, and we have been able to scale these funds significantly. So let's focus on the key drivers of the investments' life cycle, fundraising, deployment and performance and convey why we have such high confidence in our ability to deliver value to our shareholders.

In order to raise larger and larger flagship funds every 4 years, we had to effectively deploy the capital entrusted to us by investors. In our business, periods of volatility can present better opportunities to put money to work. And indeed, we are seeing that play out now. For private equity, in particular, you can see in our presentation that Fund VI is now 68% deployed and reserved and quickly closing in on the 75% threshold that would allow us to launch the fundraising over the next month. With our investment pipelines as strong as ever, we now see the timing of the private equity fundraising cycle accelerating, and we expect to be back in the market later this year with new investment activity transitioning to the new fund sometime in 2022.

The most critical element of our long-term success is, of course, investment performance, and we believe Patria's approach to investing in the region is really a differentiated. In private equity, we are mostly investing in smaller companies at attractive valuation multiples and building them into market leaders through consolidation and a relentless focus on fundamental value creation.

Our 2 most recent private equity funds are performing phenomenally with Fund V at a 32% net IRR in U.S. dollars as it begins its harvesting phase and Fund VI at a 19% net IRR in U.S. dollars, while still in the investment period. In infrastructure, we are not typically buying mature assets but rather building new platforms or companies from the ground up to fill critical needs for society, which the government often does not have the means to address. Here, we are seeing a vast range of opportunities to deploy capital into development projects, and we are in a position of strength to be a selective bidder.

Across both strategies, we focus on resilient sectors of the economy that are linked to basic human needs like health care, food, transportation and energy, which have lower correlations to economic cycles and GDP growth. Over time, we believe our approach has led to more consistent returns and provided stability through market cycles.

In our country-specific strategies, targeting local investors, currently focused in Brazil, the question we hear recently is, with interest rates now reversing course, is the theme of the financial deepening in danger? Here, I think you have to step back and appreciate the magnitude. In Brazil, for example, the interbank rate has ranged from 10% to 20% for most of the last 20 years. Since 2016, we saw a plunge from 14% to 2% and now recently reversing back to 3.5% as the central bank looks to tame rising inflation. If anything, a modest rise in rates should continue to stabilize local currency, which we are currently seeing. With $18 trillion of negative yielding debt across the globe, we don't see the longer-term trend of low interest rates ending anytime soon, and we don't see moderately higher rates slowing the flow of capital into alternative assets. Indeed, we think the financial deepening in the region is well intact and will be a long-term trend that impacts Patria positively.

I'll wrap up by reiterating these very simple points: Number one, our story for near-term fee-related earnings growth depends on our ability to deploy the remaining capital in our current flagship funds and go back to the market to raise new and larger funds. We have extremely high confidence in our ability to do that, and we are seeing that process accelerate.

Number two, we believe the expansion of our country-specific strategies will be a steady organic growth engine for FRE as well, as these strategies achieve a more material scale over the next few years. Number three, we are actively exploring opportunities to use our IPO capital for strategic M&A, which we view as upside to an organic growth profile that is already very compelling.

Number four, and lastly and most importantly, we are constantly aware that our growth ultimately depends on one thing, great investment performance. If we continue to deliver strong returns, LPs will commit larger sums of capital to us, and for shareholders, the investment performance can generate substantial levels of performance fees. Considering those factors, it should be no surprise that we believe Patria's stock presents an attractive valuation at current levels, and we believe our financial performance will make that clear over time.

I'll now turn the call over to Marco for a deeper dive on the numbers. Marco, please.

Marco Nicola D'Ippolito - *Patria Investments Limited - CFO & Managing Partner*

Thank you, Alex, and good morning. Financial performance was solid for the first quarter and very much in line with our expectations, and our key business drivers are all progressing nicely. Fee-related earnings of $17.3 million in Q1 '21 were up 14% from $15.2 million in Q1 '20, driven by a 20% increase in total fee revenues. Management fee of $31.3 million in Q1 '21 were up 31% compared to Q1 '20, largely driven by fee earnings AUM inflow from private equity Fund VI and infrastructure Fund IV.

Personnel expenses of $10.3 million were up from $7 million, mostly due to the shift in compensation structure post IPO. FRE margin was 57% from the first quarter, reflecting very strong profitability. Patria's FRE margin is among the highest in our broader peer group and exceeds the margins of global managers many times our size on an AUM basis.

Fee earnings AUM for the Q1 '21 rose to more than $8 billion, up 4% from the last quarter and 14% from 1 year ago. Keep in mind that our reported fee earnings AUM reflects the basis that is generating management fee in the current quarter. Since our flagship funds call for management fees semiannually at the beginning and middle of the year, the increase in fee-earnings AUM from Q4 to Q1, for example, is most attributable to capital deployed or reserved in the second half of 2020. There is now $2.8 billion of pending fee-earnings AUM, which is not yet generating management fees as of the first quarter and will drive top line growth over the next several quarters.

In our earnings presentation, we have added some additional details to show you that approximately $500 million has already been committed in the first quarter, mostly from private equity Fund VI, which will flow into fee earnings AUM and begin to generate management fee in the second half of '21.

We're seeing attractive opportunities to invest in this environment, and our pipelines are very active. Actual capital deployments to our portfolio companies in the first quarter was $277 million, which includes amounts that were reserved in prior quarters. We noted that private equity Fund VI was active in reserving capital for new investments in the first quarter, taking that fund from 51% to 68% committed and moving as much closer to the 75% threshold for launching a new next fundraising campaign. This acceleration should allow us to go back to the market later this year sooner than expected and begin to accrue new capital into our fee earnings AUM sometime next year.

Infrastructure Fund IV remains at 56% invested and reserved. While we see that fund taking a little longer than private equity to come back to the market, we are also seeing a very active pipeline for deployment with a record level of government concessions expected in the region for this year.

Fundraising in the first quarter of $147 million was driven by our first infrastructure core fund, which is recognized as part of our country-specific strategies as it is a publicly traded evergreen vehicle focused on local investors in Brazil. This type of fund typically must allocate capital quickly, and we had high visibility on the pipeline for this initial capital raise. We will have the opportunity to grow the fund through follow-on offerings once the initial capital is fully deployed. Demand for our country-specific strategies remain strong, and we expect to have opportunities to raise new capital and credit and real estate vehicle as the year progresses.

Turning now to performance fees. The net accrued performance fee balance was $253 million at the end of the first quarter compared to $276 million last quarter. The decrease was driven by local currency depreciation, a trend which spanned last year and continued into the first quarter of 2021. While this movement was clearly a headwind for our USD-denominated fund performance, the modest impact to our accrual balance demonstrates an impressive resilience.

Also, it is important to recognize that the accrual is a snapshot in time. And with the change of direction in interest rate in April and May, we have now seen a significant stabilizing effect on local currency with the Brazilian real reversing course and appreciating against the U.S. dollar. At current levels, all other things being equal, our March 31 net accrued performance fee would have been approximately $300 million, if you accordingly adjusted the unrealized fair value in U.S. dollar terms. While that is, of course, a theoretical estimate, it does give you an indication of where the balance could go if the currency remains at today's level or even improves further.

We acknowledge that it's easier to be a buyer than a seller in the current environment, but we're seeing good progress toward monetizing our accrual. As Alex noted, private equity Fund V performance continues to be outstanding with a net IRR of 32% and $182 million of net accrued performance fee. This is a fund with 9 investments, 1 of which now has an exit agreement at 2.4x invested capital. The companies are mostly mature and 2 have filed for an IPO. While we need more exits in the fund to realize performance fees, there are multiple opportunities across the portfolio. In private equity III, the net accrual of $45 million is supported by receivables from prior exits and one unrealized publicly traded investment, which we believe remains undervalued at its current share price with significant potential to improve. In the end, realized performance fees will always be a product of the return we generate for our LPs. And thus, we will always sell investments when it is the right time for our LPs.

So how does all this translate to our earning outlook? What we want to convey more than anything is the outlook for fee-related earnings is completely intact, irrespective of any macro perception about the region. Remember that our capital is locked up, and we enjoy the flexibility to be patient when necessary and also aggressive when the time is appropriate. Near-term FRE growth is substantially driven by the deployment of our pending fee earnings AUM alone. If anything, today's environment is accelerating our growth path as we deploy capital faster and bring forward fundraising. We continue to expect nominal growth in FRE for '21 compared to $71 million generated in 2020 at margin in the mid-50% range. This should be driven by very strong fee revenue growth, north of 20% year-over-year.

While exit transactions maybe incrementally more difficult at the moment, we continue to feel great about the quality and the performance of our portfolio. We are still in the first half of the year and see significant opportunity for the backdrop to improve, especially if the economic reflation accelerates in the coming months. While that trajectory may have an impact on the level of performance fee we realize this year versus next, our ultimate performance expectations are unchanged.

Altogether, you should take away the message that Patria's growth story is highly intact and exciting opportunities lie ahead. As a newly public company, we recognize that the market is carefully evaluating our ability to execute. We have high conviction that we can deliver. And presuming we do, we see considerable value in our shares at today's price.

Many thanks to all of our shareholders for your support. And to potential shareholders, we hope you will also consider joining us as partners on this journey. We're now happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Craig Siegenthaler with Crédit Suisse.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

I wanted to come back to Slide 11. We can see that 41% of private equity Fund VI is now reserved for future transactions. And my question is, is all of the binding and reserve capital in the 41% based on transactions that have already been announced? And what are the major investments embedded in this 41%? And should we expect them to close over the next 6 months?

Alexandre Teixeira de Assumpção Saigh - *Patria Investments Limited - CEO, Senior Managing Partner & Director*

Yes. Craig, this is Alex here. Thanks for your question. Yes. I think we -- on the 41%, we have 2/3 of that already not only committed but deployed. We have on -- in the beginning of the fund, we did take advantage of the COVID where listed stock prices did suffer, and we did deploy capital buying the shares of 2 listed companies. One is a gas distribution network gas stations and the other one is a health club -- a health care chain.

So with that, they were not only committed but deployed. And we did commit capital to a health care initiative in Latin America, starting in Colombia. It's an integrated health care company, started with HMOs, health care management organizations, in Colombia. There, we committed a substantial amount of money, but we deployed a part of that.

And we also then committed to other thesis along this second quarter, one into a thesis in the fast-moving consumer goods distribution business and the other thesis in the cybersecurity business. With that, yes, we are then beefing up our commitment. By the third quarter, we should have -- by the end of, actually, this quarter, the second quarter surpassed the 75% threshold, which enables us to market and actually have a first close of our next one, private equity Fund VII. And we should have around 40% of the fund deployed. By the end of the year, that 40% should go to be closer to 50%, 60% deployed. I hope I answered your question there.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

Great. Alex, it was very clear. Just for my follow-up, the interest rate backdrop is constantly changing in Brazil. And it's now looking like rates are going to move higher, maybe faster than we thought 3, 6 months ago. I know most of your clients are outside of Brazil, but how does this evolving interest rate backdrop change the domestic migration to equities and alternative thesis, which could impact flows into products like your infrastructure core fund inside of Brazil?

Alexandre Teixeira de Assumpção Saigh - *Patria Investments Limited - CEO, Senior Managing Partner & Director*

Well, thanks for the question, again. I think very good question. I think we have to take a look, first of all, on the magnitude of things, right? I think we are -- to be honest, a 2% interest rate in Brazil was way too low. Now we do have some inflation in the country. And, of course, during the COVID months, the months that were affected by COVID of course not. But now things coming back, economy is rebounding, we do have some inflation, which is good actually for the economy. And now central governments, not only in Brazil, are putting up interest rates to cope with that. But we're talking about inflation being -- if you extract from the inflation number basically in Brazil the commodity prices increase, that they did increase significantly over the last month.

The inflation is basically on target. We have an inflation targeting system in Brazil and the midpoint of that is 4%. So we see that ex commodity prices, we see that it's pretty much in control. And the central bank in Brazil and other countries in Latin America are seeing the same thing, commodity prices pushing up inflation numbers.

When you extract the commodity prices increase, the other items that compose inflation numbers indices are pretty much behaved. But nevertheless, of course, inflation versus last year that had no inflation because of the crisis. So the hike up in interest rates is actually, in our view, positive, given the magnitude that we're talking about. We see in Brazil, 5% to 6% by year-end, where we're now at 3.5%. And that also helps, to be honest, Craig, to -- for us to pass on to prices the inflation on our costs.

On the private equity side, we do invest in very resilient and inelastic in nature businesses -- industries and businesses like health care, for example. We also do have a lot of investments in the agri business that now do follow the commodity prices. So we had a really high pop in prices in these businesses because of the -- again, the increase in commodities, agribusiness specifically.

On the infrastructure side, even more so because of most of the revenues that we have on the infrastructure side are contracted and corrected by inflation. So some inflation for us is actually good. And most of our funds in Brazil, as you mentioned here, the -- our core infrastructure fund, they are denominated in inflation plus returns. Why? Because the revenues of these businesses are contracted and corrected by inflation. So our infrastructure core aims at an inflation plus 6% return. So if inflation goes to 4%, it is around 10%, nominal. If inflation is 3%, it's around 9% nominal. So the 6% above inflation is what investors look for.

And normally, the Brazilian Central Bank actually, in a same temperature, same pressure, do position interest rates at a 2% above inflation target. So inflation targeting around 3.5%, 4%, interest rates will be around 5.5%, 6%, and that's what the market actually predicts, if you look at the forward yield curve.

So actually, it's very, very positive, to be honest, in this magnitude, in this magnitude. It actually gives some oxygen to the economy. It means -- inflation also means that things are coming back, that businesses are coming back, that we've been able to pass on to prices some of the inflation on our costs. Basically, the increasing commodity prices do affect some raw materials in some industries, not the ones that we are exposed which is health care and other items, are not really exposed to raw materials that buy whatever commodities like iron ore or whatever. But yes, everything looks more natural, more normal with a 4% inflation and a 6% interest rates. And again, our businesses in Brazil, in local currency, is inflation plus.

I forgot to mention our REITs, our real estate investment trusts. They trade also the same way that the infrastructure investment trusts trade, as I just explained. Investors look at that yield at an inflation plus yield. So my example for the infrastructure investment trust was inflation plus 6%. Let's say that it's an inflation plus 6% again for the real estate investment trust ABC. So if inflation goes up as will the yield. Because in Brazil, we have rents also corrected by inflation.

So again, it's a long answer to your question. But for me, and as I look into the businesses, in -- the magnitude that we are talking about around the 4-ish percent kind of level inflation and the 6-ish percent kind of level interest rate is actually positive for our businesses and for the economy in general.

Operator

Our next question comes from Mike Carrier with Bank of America.

Dean M Stephan - *BofA Securities, Research Division - Analyst*

This is Dean Stephan on for Mike. I know it's always difficult to forecast, but can you provide some additional color around the performance fee outlook for the remainder of 2021? If you expect any performance fees to be generated over the next couple of quarters? And maybe what percent of previously expected performance fees could be delayed into next year?

Alexandre Teixeira de Assumpção Saigh - *Patria Investments Limited - CEO, Senior Managing Partner & Director*

Thank you very much, Dean, and thanks for participating in our call. This is Alex again here. Our performance fees for 2021 is basically composed by -- or derived from 2 funds, private equity Fund III and private equity Fund V, as you know.

On private equity Fund III, our main asset there, which is 90% of the remaining net asset value of the -- NAV of the fund is 1 listed company, which is an imaging diagnostics company that had -- called Alliar, A-L-L-I-A-R. You can check that, if you want to, as this -- as it is a listed company in the Brazilian stock exchange, B3. And it had a great quarter. It had a great first quarter of 2021, and the results actually did please investors as the stock went up by 25% versus how that stock closed by the end of 2020.

So great performance there, because this company, it is an imaging diagnostic company, but it does -- it did negatively impact -- it got negatively impacted by COVID because the elective surgeries were canceled. With a rebound in the fourth quarter and the first quarter, you can see the results of the company coming back. And you can -- the results are great and the stock price were up. So we were expecting to see that because, of course, we are a major shareholder of the company. And we expect this company to actually continue performing extremely well this year as we see the vaccination programs in the region, as mentioned, over 110 million people already vaccinated, It's a 500-and-something million region, people region, so 40%. And the vaccination programs on a daily basis speeding up. So as that happens, we see actually then a good second and third quarter for that specific company.

In addition to that, as I mentioned in my last question, Dean, with interest rates going up a little bit in Brazil and other regions in Latin America, we have a stabilization or even a strengthening of the currencies in the region because investors, international -- local, international come back, and they want to invest in the local fixed income market in order to find some yields, which is now something hard to find around the world. So the increase in interest rates actually helps to stabilize the currencies in the region or even strengthen, plus we have a record high increase in commodity prices, as you know. If you look at the data from -- you can see one data or the other data, but approximately a 50% increase in commodity prices from their lows sometime last year. And that benefits the region as well because some of the economies in the region do benefit from high commodity prices, copper in Chile; agribusiness, iron ore in Brazil; oil in Colombia, $70 a barrel, as you know.

So all of that push is pushing on one side, on the macro side, the rebound in the region, which we look very positively, the commodity prices helping GDP growth that helps the major economies in the region; the interest rates a small hike, which actually stabilizes the currencies in the region and, in addition, actually strengthen the currency in the regions as investors come and invest in these currencies, in these markets to get some yields.

On a micro level, Alliar, which is the imaging diagnostic company for Fund III, performing extremely well with a 25% rebound on its share price this year. So as we look into the year, we're still here in May, we see that sometime this year, we want to divest from that company. But I think it was great that we actually waited to see that rebound. And I think we want to wait for the second wave to go through. And in third quarter, fourth quarter to do that divestments in order to actually ride all of these positive things that I just mentioned on Alliar stock.

But even if we do sell the stock at the current prices, because there's a catch-up in the country, which now we can go offline and explain a little bit of that, all of the, actually, resources -- most of the resources from the sale of that stock actually goes to pay our performance fees because we have a full catch-up on Fund III. So even if we did sell the stock at this moment, it didn't -- it won't affect much the overall number of performances for our private equity Fund III.

On private equity Fund V, no, it's not -- not only the returns are just starting, as far as I'm concerned, a 32% net IRR in U.S. dollars as of the first quarter of this year but out of the 9 companies, 7 of them, I think, are ready to go to an exit mode. Two of them, we filed for an IPO. One of them is another health care company, an HMO integrated with hospitals. And the other one that we actually just filed today -- or yesterday, is a network of gyms or fitness centers. So both of them, I think, will look into the year and using, again, all of the upside and good views that I see the region announcing over the next quarters not only with IPO, and the IPO includes some secondary trade for Fund V, but also during the year we could do follow-ons and whatever.

So as I stand right now, I think I'm pretty positive on Fund III and Fund V's -- private equity Fund III and private equity Fund V in generating that performance fee. There might be a case that some, I know it's not, in third quarter or fourth quarter, there's another wave of COVID or something strange happens and diverses from the track that I am describing right now. It has been, as you know, very volatile during the last months. Thank God, the second wave in the region has not been that bad and the vaccination programs are advancing, but who knows what can come up, another variant of the virus and whatever. But given the same temperature and the same pressure here, I'm positive on generating these fees this year.

And more so, I'm very positive on FRE. If I -- I know that, that was not part of your question, but if I can use the answer here to comment on FRE. Marco and I mentioned, I think, during our call today, how we have been able to deploy more capital in our flagship funds, which increases then the fees that we charge and also how we have been able to control expenses extremely disciplined -- in a disciplined manner. So we see an increase in revenues. We see an increase in FRE above our expectations, and we see mid-50% margins. Now in the first quarter, we posted 57% FRE margin. So not only I see -- I'm pretty positive on the FRE side as I am on the performance fee-related side as well, given what I just said.

Finishing up here, I think when we look into the very short term, which is 2022, I mentioned that, but Marco also mentioned, sorry to be redundant and emphasizing this. But as we do deploy more capital and with this kind of very, very strong performance that we are posting for private equity Fund V and Fund VI, Fund VI is 18% net IRR in U.S. dollars, we are looking to anticipate the fundraising of private equity Fund VII, which in our projections was way back in late '22 and looking into having that fundraising happen late this year, beginning of next year. So that also will generate fees for us to charge in '22, which was not expected, for us, at least, in our projections.

So all of this, I think there's a group -- a great set and group of good news on the performance fees as well. I hope I answered your question. A long answer here, I'm sorry, but hopefully, I was able to answer.

Dean M Stephan - *BofA Securities, Research Division - Analyst*

Yes. That was very helpful. And I guess just as a follow-up, given one of your peers announced a share buyback program yesterday and your comments on the call today about the current stock valuation, just wondering if we could get your thoughts around capital priorities, if you guys have thought about share repurchases and how you're kind of balancing capital return versus M&A and investment in the business?

Alexandre Teixeira de Assumpção Saigh - *Patria Investments Limited - CEO, Senior Managing Partner & Director*

Yes, great question as well. I think we had to address that. As we see our share price right now at around $15 per share, it is disappointing, of course, approximately a 15% drop from the IPO price. We all wanted it to be, of course, the other way, right? But I think it's too early to make the call on a share buyback program as of today. We have so many amazing opportunities on the M&A front in addition to everything that I said on the FRE front and the PRE front, the performance-fee earnings front, generating good distributable earnings.

We see FRE this year better than our expectations. We see our margins better than our expectations in the mid-50s. We see everything that I just mentioned on the performance fee side, so deploying some of the capital we raised into these new ventures here. So it's a great momentum for Patria growth. It will be a great momentum for the stock as you guys follow us and actually see us performing, as I just mentioned.

So I think that the stock, with the organic growth of what I just said, should reflect that some time soon, hopefully. So I would like to actually reserve, as of now, the capital that we raised in the primary issuance for the reasons that we raised it, which was primarily for acquisitions. And we have so many interesting things that we are talking and MOUs signed that we are analyzing such great things again. But again, I'm always with a very -- very sensible to the share price. Now of course, we own 60% of the company, 6-0, as Brazilian shareholders and founders here. So any uptick in that price is extremely, extremely positive for us, and we'll keep a very open eye on. But as of today, I think it's too early to say, given the momentum that we have for Patria on the organic side and given the great opportunities that we have on the M&A side, but I'm sensitive and I'll -- let's see what happens in the near future. And we might come back to this subject, but not as of now. Thank you.

Operator

Our next question comes from Tito Labarta with Goldman Sachs.

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

Maybe a couple of questions also. Just first on the accrued performance fees. How much of the decline was related simply to the FX? And with the FX sort of coming back since then, should those good performance fees kind of just go back to where you were at year end? Just to get some color on the FX volatility and the impact.

And then my second question, I guess, just given the underperformance in the stock and -- has anything changed from -- in your expectations since the IPO? And my sense from what you've been saying on the call so far is maybe FRE ahead of expectations or possible upside, maybe the performance fees, a little bit of uncertainty there. But I just want to confirm that that's consistent with how you're seeing, but if anything may have changed since the IPO, given the volatility in the market and in your stock?

Marco Nicola D'Ippolito - *Patria Investments Limited - CFO & Managing Partner*

Tito, this is Marco. So related to your first question about net accrued performance fee, I made a comment on my initial remarks. The number -- the hypothetical number, if you do not consider the FX, of our net accrued performance fee would be at around $300 million. But that's just a hypothetical number. So the straight answer to your question is around $50 million.

When you look quarter-over-quarter, you'll see the detail fund by fund. And when you see the number being basically NAV, that's how much the NAV went up and matched to how much the currency depreciated, that it's around 10% in the quarter.

Relative to your second question, all the fundamentals and key drivers of the business continue to be very solid. So if anything, we've been able to deploy capital at a faster pace, that it's resulting on a view that our fundraising prospective for the flagship funds will accelerate.

There's also the fact that the underlying portfolio performance has been very solid. I think in part of the fact that we have exposure to sectors that are performing quite well over the pandemic, namely agribusiness and logistics and base service-related sectors. They are the ones that are receiving most of the cash that has been coming through the governments to help in the pandemics. And that, of course, gives us a good perspective in terms of the performance fee.

So on the fee-related earnings side, we can expect an increasing amount of fee-paying AUM. I indicated in my presentation that during the first quarter, we have deployed or reserved about $500 million, but this amount will flow into our fee earnings AUM only on the second half of the year because of the way we draw the line to charge our fee earnings AUM. That's a very positive news. And if you tie that to the information that last year we deployed $1.5 billion, it gives you an indication of how much more money we are deploying over this year that will turn into revenues on the second half. Hopefully -- I hope I have answered your question.

Alexandre Teixeira de Assumpção Saigh - *Patria Investments Limited - CEO, Senior Managing Partner & Director*

Yes. Maybe I can get the second part of the question here on the general macro view that you mentioned. I think, yes, for the first part, I think, of your question. I think we are optimistic on the FRE front versus our expectations, yes, from all of the reasons that I think we covered here, further deployment and et cetera, and very disciplined control on expenses, et cetera.

And on the performance fee side, I think all of the data points are -- as of today are there. And there's a major performance fee coming from our private equity Fund III, where the most important asset there is an imaging diagnostics company that the stock traded 25% up. And we also see the real strengthening as of today, be it BRL 5.20, BRL 5.30 versus BRL 5.50, BRL 5.60.

So as of 20th of May, I think things are progressing in the right direction in order to realize that performance fee from Fund III in a good share -- real per share. And on Fund V, the companies are performing extremely well. And of course, it's also very important to say that the sector selection, which is key in our view, in my view, to do well in equities in the region in Latin America in Fund V is amazing. Not only the companies are doing well, but it starts with the sector selection, health care, agribusiness, logistics, all of these sectors were extremely benefited from COVID. On the contrary, they were not negatively affected, they were positively affected.

Now the HMO business that we have, which is a major asset of Fund V, was positively affected because we continued to receiving the payments for our private payers. Now we just serve the private side of the market, we don't serve the government for this company. So everybody was paying, but there was no elective surgeries. So the margins of the business and EBITDA of the business was extremely benefited last year and continue to be this year.

We have a major agribusiness company in this Fund V, which is a distributor of agribusiness products we buy from Syngenta, from Dow and whatever, and we sell to farmers. Look what happened with the commodity prices, agribusiness prices in Brazil. Farmers, I think, never saw the kind of margin that they're seeing in their business today. Soybean bushels in reais is 3x the price as they were 3 years ago, besides productivity gains. And our business, of course, benefits from that. So the businesses that compose Fund V are doing extremely well. So at the right time here, we're going to be able to sell them at very good prices and also the strengthening of the real.

So I think we position ourselves in a good place to be. And as of 20th of May, things are working our way. Of course, when I look at the FRE, I have a lot more certainty because it's -- I know how much I'm deploying, the funds already raised and with the kind of performance we have and see support from our LPs for us to raise our private equity Fund VII. And on the performance fee side, there is also more uncertainties on when you're going to sell it and whatever. But until -- as of today, things look good for the year. So I hope I answered your question as well.

Operator

Our next question comes from Robert Lee with KBW.

Robert Andrew Lee - *Keefe, Bruyette, & Woods, Inc., Research Division - MD & Analyst*

A lot of them have been asked and answered, but 1 or 2 that I had is, I'm just curious, this relates to realizations. But I mean, clearly, there's a growing secondary market appetite for participation. And I know in the past, you had kind of discussed that there had been some parties that maybe were interested in some type of strip transaction that may -- could have the potential, I guess, of accelerating some realizations. I mean, can you maybe update us if those kind of discussions are ongoing or if this -- maybe it's just not the right time to consider something like that? Just curious where that stands.

Alexandre Teixeira de Assumpção Saigh - *Patria Investments Limited - CEO, Senior Managing Partner & Director*

Robert, this is Alex. And thanks for the question. I think it is the right time to consider it. And the secondary market, as you know, is very, very liquid. Huge funds were raised by several very important players in that market. And I think we have great assets, and I was mentioning private equity Fund V. And definitely, we have been -- it's something that we will consider, it's something that we are considering.

We were approached by several of these players as they look into everything that I said, they look at the rebound in the region. They look at the strengthening of the currencies because of the commodity prices increases and the effect that commodity prices do have in the economies of the region is beneficial, is positive. They also see the companies that we have in our private equity Fund V, exposed to the right sectors. As I mentioned, health care and agribusiness, logistics. We have also in Fund V a last-mile food logistics business and of course, did very well. And it continues to do very well as people stay more at home and order more food and et cetera, from home. And yes, we were approached, and we will definitely consider and we are considering.

And some of these -- the GP-led transactions in this market have been increasing, more over the years. There's a -- I think it was -- don't take me for this data here. But I think last quarter, I think we had more GP-led transactions than LP-led transactions in the secondary market. So yes, I think we were approached. We are considering. It looks good. I think we should pursue seriously in doing something for that. And Fund V is a good candidate given everything that I said.

Operator

(Operator Instructions) Our next question comes from Craig Siegenthaler with Crédit Suisse.

Craig William Siegenthaler - *Crédit Suisse AG, Research Division - MD*

A follow-up. We just wanted to circle back on corporate M&A. Can you remind us your appetite to acquire private markets businesses outside of Brazil in adjacent markets, and I'm thinking like Chile, Colombia, Mexico?

Alexandre Teixeira de Assumpção Saigh - *Patria Investments Limited - CEO, Senior Managing Partner & Director*

Yes. Thanks, Craig. The appetite is high. I think we see these economies, these adjacent economies, as you call them, going through very interesting moments, different moments in each one of these economies, but yes, diversifying some of the Brazil risk, other currencies, other natures of economies. So the answer is yes. I think we're looking into expand our product offering and expand our geographic footprint in the region. So we do -- we are looking, at the same time, to expand the product offering for our Brazil-centric products, targeted to Brazilians in BRL, raising in BRL, investing in BRL like the REITs, real estate investment trusts, like the infrastructure investment trusts that I mentioned, but also looking to expand throughout the region with other general partners that do manage other products or similar of ours, but in these countries that you mentioned.

There are no great managers in the region that are doing extremely well. And that would add, I think, extremely well to our portfolio. So the answer is yes. And I think it composes and -- our portfolio. It diversifies country risk, diversified currency risk. These economies, by themselves, they're not very correlated with other economies of the world. That's something that we always do show to our limited partners that investing in our funds that have exposure to the countries that you mentioned, Craig, the economies of the region here is not really correlated with the U.S. economy or European economy. So it's a good add for them. They're buying returns with very low correlation. So that actually adds to their portfolio, no high Sharpe ratios, which everybody looks for, right?

So having Chile, having Colombia, having other countries in the portfolio adds to that whole theme of giving them exposure to the region, not just to a country. And the region has the economies that are not correlated with where most of our LPs are based, U.S., Europe and Middle East and Asia.

Second, we diversify currency because the currencies of these countries that you mentioned are less volatile than the BRL, which is the Brazilian currency. So there's a lot of advantages.

Lastly, I think the Brazilian market is more mature and advanced in some shapes. And we see going into these countries that we have, I'm generalizing now, assets at more attractive valuations because the industries in these economies have not performed as well as the -- or competed or added sophistication to these industries as we see it in Brazil. So there's a great opportunity that through these local managers, you can find businesses at very, very attractive valuations that can add to the whole -- to a Latin American consolidation. So it's pretty positive. We are having -- we already have very interesting exposure to these economies. I'll give you one example. Private equity Fund V, it should be 60%, 65% in Brazil and 35%, 40% other countries in South America, which basically shows the math of the GDP composition.

If you add the GDP of all of the countries in the region, including Mexico, Brazil is around 40% of the region's GDP. South America, around 60% of the GDP. So I'm just doing a plain math here. And our fund is going to be more or less 60%, 65% exposed to Brazil. And some of these companies that I consider part of the 60% do have businesses in other Latin American countries plus a direct exposure of 35%, 40% of the fund to these other countries. So -- and we saw a significant plus in better returns because we can go in at better valuations and diversification of country risk and currency risk and a bigger appetite from our LPs to have a regional exposure versus a country-only exposure.

Operator

There are no further questions. I'd like to turn the call back over to Josh Wood for any closing remarks.

Josh Wood - *Patria Investments Limited - Head of Shareholder Relations*

Thank you, everyone, for joining us today. If you have further questions, please reach out to us at the contact information provided in our earnings presentation and on our website. We look forward to talking with you again soon, and have a great day. Thanks.

Alexandre Teixeira de Assumpção Saigh - *Patria Investments Limited - CEO, Senior Managing Partner & Director*

Thank you, everybody. Stay safe. Thank you very much.

Operator

Ladies and gentlemen, this does conclude the program. You may now disconnect.
