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PAX.OQ - Q2 2024 Patria Investments Ltd Earnings Call

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CORPORATE PARTICIPANTS

Rob Lee *Patria Investments Ltd - Investor Relations*

Alexandre Teixeira De Assumpcao Saigh *Patria Investments Ltd - Chief Executive Officer, Senior Managing Partner, Director*

Ana Russo *Patria Investments Ltd - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Daer Labarta *Goldman Sachs - Analyst*

Guilherme Grespan *JPMorgan - Analyst*

Ricardo Buchpiguel *BTG Pactual - Analyst*

Pedro Leduc *Itau BBA - Analyst*

PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Patria Second Quarter 2024 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker today, Rob Lee, Head of Shareholder Relations. Rob, please go ahead.

Rob Lee - *Patria Investments Ltd - Investor Relations*

Thank you. Good morning, everyone, and welcome to Patria's Second Quarter 2024 Earnings Call. Speaking today on the call are our Chief Executive Officer, Alex Saigh; and our Chief Financial Officer, Ana Russo; and our Chief Economist, Luis Fernando Lopes for the Q&A session. This morning, we issued a press release and earnings presentation detailing our results for the quarter, which you can find posted on the Investor Relations section of our website or on Form 6-K filed with the Securities and Exchange Commission.

This call is being webcast, and a replay will be available. Before we begin, I'd like to remind everyone that today's call may include forward-looking statements, which 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 risks, including those discussed in the Risk Factors section of our latest Form 20-F annual report. Also note that no statements on this call constitute an offer to sell or a solicitation of an offer to purchase an interest in any Patria fund.

As a foreign private issuer, Patria reports financial results using International Financial Reporting Standards, or IFRS, as opposed to U.S. GAAP. Additionally, we would like to remind everyone that we will refer to certain non-IFRS measures, which we believe are relevant in assessing the financial performance of the business but 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 IFRS measures are included in our earnings presentation.

Now I will turn the call over to Alex. Alex?

Alexandre Teixeira De Assumpcao Saigh - *Patria Investments Ltd - Chief Executive Officer, Senior Managing Partner, Director*

Thank you, Rob, and good morning, everyone. The second quarter of 2024 was a very busy quarter for Patria as we continue to make solid progress towards our near- and long-term goals. This morning, we are also excited to announce our first share repurchase program and an update to our capital management strategy, as well as the acquisition of the 50% of VBI we did not previously own. But first, let me summarize our second quarter

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results. Management fees reached over $70 million, up 14% year-over-year and 12% sequentially, while fee-related earnings reached $39.5 million, representing year-over-year and sequential growth of 17% and 13%, respectively.

Expenses continue to be tightly managed, and we were able to deliver a 56% FRE margin despite the onboarding of our acquisition of the private equity solutions business of abrdn, which, we have previously indicated, has a lower margin. We expect that we can realize some synergies from our acquisition and our full year FRE margin for 2024 to be in the 56% to 58% range, trending back towards 58% to 60% in 2025 as we realize expense synergies and the full impact of our fee revenue growth flows through the P&L. Moving on, we delivered close to $34 million of distributable earnings or $0.22 per share compared to $0.21 in the prior quarter.

Next, focusing on AUM. We finished the quarter with more than $40 billion, a robust 43% increase compared to the second quarter 2023 and 26% versus first quarter 2024. Our AUM growth was driven both organically and inorganically by fundraising that remained strong with $1.3 billion of organic inflows in the quarter and approximately $5 billion over the last 12 months. We continue to see a clear path to achieving our previously communicated $5 billion organic fundraising target for the full year. On the inorganic front, the completion of the acquisition of abrdn's private equity solutions business at the end of April, combined to the transfer of about $570 million of real estate investment trust AUM from Credit Suisse transaction added over $10.1 billion of AUM in the second quarter.

Please note that the addition of the real estate investment trust AUM occurred towards the end of the quarter, while the abrdn business was on our platform for only two months. We expect to see another step up in AUM in the third quarter as the transfer of the remaining REITs from Credit Suisse with an additional $1.5 billion of assets was completed by the end of July, while the acquisition of Nexus Capital with over $700 million of AUM, closed also in July. And of course, we are moving full speed towards our target of $5 billion of organic inflows for the year, inclusive of the recently closed Nexus acquisition and the remaining Credit Suisse REIT assets, pro forma AUM are around $43 billion, of which over 20% is in permanent capital vehicles.

Also, while it won't impact AUM, in the current quarter, we concluded the acquisition of the remaining 50% of VBI. Full ownership of VBI, which has more than doubled its AUM since we made our initial investments from approximately BRL5 billion in mid-2022 to approximately BRL 10 billion in mid-2024 should be additive to FRE. Putting it all together, our growing base of fee-earning AUM of $31 billion from acquisitions and fundraising, coupled with tight expense controls, give us confidence that we remain firmly on track to deliver our FRE targets of over $170 million in 2024 and $200 million to $225 million in 2025.

Importantly, now that we expect to issue fewer shares and use more cash to fund M&A and related payments over the coming quarters, we are slightly increasing our previously announced FRE per share guidance of at least $1.09 in 2024 to between $1.10 and $1.12, while our 2025 FRE per share guidance also rises slightly to $1.26 to $1.41 or $1.34 at the midpoint of our guidance range compared to $1.33 previously. Our FRE per share guidance reflects year-over-year growth at the midpoint of 12% and 20% for 2024 and 2025, respectively, and excludes the impact of future share repurchases.

Looking back to December 2021, the year we went public, this FRE growth results in a strong 21% CAGR at the midpoint of our 2025 target range. As our already strong fee-earning AUM growth continues in the second half of 2024 and into 2025, we expect it will drive accelerating FRE growth as we start to reap the full benefits of our fee revenue growth. Couple this revenue growth with tight expense controls, both FRE per share and DE per share should accelerate as we move past the front loading of M&A-related debt and other expenses.

Next, with regards to performance-related earnings, or PRE, while we did not realize any performance fees in the quarter, we continued to generate attractive long-term investment returns for our clients and feel good about our potential to generate performance fees and meet our objective to realize $180 million from the date of our last Investor Day in 2022 through 2025, of which we have already realized $66 million. As a reminder, our Infrastructure Fund III is already through its waterfall and in its catch-up phase. We remain very proud of our long-term investment performance and while the net accrued performance fee balance of $436 million or $2.87 per share did decline both year-over-year and sequentially, it was almost entirely due to foreign exchange movements.

Before we dive deeper into our results for the quarter and expectations going forward, let me give you a little more color on an exciting and important evolution in our capital management strategy. First, the Board determined to pay a dividend for 2024 of 62.5 cents per share or $0.625

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per share. And since we paid 17.5 cents per share or $0.175 per share in the first quarter, we declared a quarterly dividend of $0.15 per share, which will be fixed at this level for the next three quarters. Simultaneously, we are announcing a share repurchase program of up to 1.8 million shares over the next 12 months, reflecting our focus on creating long-term shareholder value. I

n our view, the price of our stock does not come close to reflecting our robust long-term outlook, and the Board believes that resetting the dividend and focusing incremental cash flow on share repurchase and/or reducing the level of debt are among the highest and best uses of returning capital to shareholders. Our confidence in our business outlook is further demonstrated by the fact that Patria Holding Limited, or PHL, the controlling shareholder of Patria Investments Limited and the vehicle through which senior management of Patria stake is held, is committing to purchase up to an additional $12.5 million of PAX, P-A-X, shares through the end of 2025 on top of the share repurchase program.

As a reminder, PHL currently owns a majority stake of more than 53% in Patria. These actions, in addition to our intention to utilize up to $100 million of future PRE to fund M&A and/or pay down M&A related debt and now to potentially repurchase stock as well demonstrates that we will be flexible and opportunistic as we look to use our capital to drive profitable FRE and DE growth and long-term returns to shareholders while optimizing and maintaining a conservative balance sheet, which is of the highest priority and which Ana will review in more detail shortly. So even with the change of our dividend at the current stock price, the current yield is a solid of about 5%.

Now let's talk about our team's execution of which I continue to be very proud. Starting with organic fundraising, overall, it was another solid quarter. As mentioned, we raised $1.3 billion in the second quarter, bringing our total fundraising over the first half of 2024 to $2.2 billion or approximately $5 billion over the trailing four quarters. We are particularly proud that even without a closing on a flagship fund, fundraising in the quarter and year-to-date has been strong, further highlighting the importance of having a diversified business. As we are in the market with multiple strategies across our platform, I thought it would be helpful to highlight several strategies and initiatives that we believe will be key contributors to our hitting our fundraising and FRE objectives.

First, our credit platform continues to exhibit strong momentum and is an important near- and long-term driver of new business as evidenced by over $350 million we have raised in these strategies in the second quarter and the $1.2 billion we have gathered over the trailing four quarters. Credit assets have grown close to 25% since our acquisition of Moneda. We have had great success with our real estate products, which are predominantly in permanent capital vehicles. We have raised about $380 million over the first half of 2024, including over $140 million in the second quarter and approximately $850 million over the trailing four quarters. With the transfer of the Credit Suisse REITs, we see the potential to raise additional permanent capital in several of our REITs products.

Although we are limited in what we can say as several are in registration. Permanent capital is particularly valuable and growing this part of our business is a priority. Our new global private market solutions platform has hit the ground running, and we expect to hold a significant first close of Secondaries Opportunity Fund V, or SOF V, before year-end. Also, a key highlight in the quarter was the closing of a $430 million SMA, or special managed account, which was a strong vote of confidence in our platform. We continue to work on additional SMAs with existing and prospective clients and see the traction in GPMS continuing to build.

Over the balance of 2024, we expect to hold additional closings of our latest vintage Infrastructure Fund. We already have $1.1 billion of commitments and believe that we can ultimately raise between $2 billion to $2.5 billion for this fund. As we have discussed previously, we see a lot of opportunity to invest this capital and have already started to deploy it.

Finally, as we have discussed in prior calls, while the fundraising environment in private equity remains very challenging, particularly in LatAm, we still believe we can approach our $2 billion target over time and expect additional closing over the latter part of the year. At the same time, the investment environment remains very attractive, and we continue to focus on developing and investing in our targeted platforms. Sticking with the topic of fundraising, we also wanted to use this quarter's call to provide some additional perspective as to why we are excited about and confident in our long-term fundraising momentum and most importantly, organic growth potential, which is supported by our M&A strategy.

First, as we have talked about previously, alternative allocations from investors within the region remain extremely low compared to the rest of the world, and we expect those allocations to trend upwards and for our investor base to diversify as we expand our regional platforms. In that

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regard, it's worth noting that over half of our fundraising in the second quarter and two-thirds year-to-date has come from LatAm investors, highlighting the success we are having in our strategy of being the gateway for local investors to invest in alternative products.

Similarly, global investors remain under allocated to the region. And while private entity demand has been impacted by the current global slowdown in demand, mainly from US pensions, we expect that will eventually rebound. In contrast to the current lackluster demand for private equity, global investor interest in infrastructure remains positive, and the potential in LatAm is being recognized by a growing number of investors, as evidenced by the Saudi sovereign wealth fund, also known as the Public Investment Fund, or the PIF, which stated its interest in infrastructure investment in the region and our signing of a memorandum of understanding with the Saudi's Ministry of Infrastructure that Patria remains one of their preferred investment partners in the region.

We have a much more diverse investor base than ever, which helps derisk the company even as it opens new potential investor segments. We are better positioned than we have ever been to grow our business as limited partners look to consolidate the number of managers they do business with as the number of investment platforms, strategies and investment vehicles we offer has grown substantially since our initial public offering. It's easy to lose sight of the fact that we have only been public for just over 3.5 years, and most of our acquisitions have been with us for 2.5 years or much less.

So many of the prospective benefits of our M&A strategy are new and in the very early stages of their life cycle, reflecting ample opportunity to scale. As an example, the launch earlier this year of our infrastructure private credit fund with a $1 billion target, an initial cornerstone investor, such as the International Finance Corporation, or IFC, the Development Bank of Latin America, or C-A-F, CAF, and the Brazilian Development Bank, or BNDES, highlights just one instance of how we are leveraging our expanded partnership with Moneda to bring new and differentiated investment solutions to our clients. Similarly, we are just in the early stages of building and leveraging our expanded distribution platform and reach.

Our sales and marketing team has grown from less than 10 at the time of the IPO to over 60 people today with plans for additional expansion. Our regional distribution capabilities in Brazil, Chile and Colombia are each relatively new to Patria and still in their early stages of development. And with the completion of the Credit Suisse transaction, 1 million retail investors in Brazil on a Patra branded investment product, which we expect will provide additional cross-selling opportunities over time, strengthening our brand in the region. In addition, many retail clients also own a Patra branded product through our trust listed on the London Stock Exchange.

Finally, while it is perhaps less obvious, our growing base of permanent capital enhances our ability to generate organic as additional follow-on fundraising, particularly in permanent capital vehicles. has a layer cake effect. All new permanent capital raise is incremental to management fee revenues and FRE and therefore, of particularly high value. So overall, we remain very excited about the outlook, our new capital management strategy and our ability to leverage our M&A into future organic growth and FRE and DE growth.

Now let me turn the call over to Ana to review the financials.

Ana Russo - *Patria Investments Ltd - Chief Financial Officer*

Thank you, Alex, and good morning, everyone. It has indeed been a very busy few months since we close our -- on several acquisitions, announced the update to our capital management strategy and new share repurchase program and continue to invest in and build out our expanded product suite and distribution capabilities. Overall, we remain confident in our growth and FRE outlook over the balance of the year and into 2025.

Let's now review the results for the second quarter and work our way down the P&L. Starting the total fee revenues, the $71 million we reported was a 20% increase over Q2 '23 and 17% over Q1 '24. The sequential increase was mainly driven by 2 months of revenues from the abrdn acquisition, which closed on April 26 as well as fees from net new flows into credit and real estate fee earnings AUM, all partially offset by a reduction in public equities due to outflows and negative asset returns in the quarter as well as negative FX impact.

Higher year-over-year fee revenues also benefit from the November '23 closing of our transaction with Bancolombia, new commitments, fundraisings and deployments in various vehicles, including Private Equity Fund VII, among other things. We expect fee revenues to continue to benefit over the coming quarters and into 2025 as well we fully onboard our recent acquisitions. As a reminder, we closed on the abrdn acquisition at the end

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of April and $500 million of fee-earning AUM of Credit Suisse REITs were transferred at the end of June, with the remaining $1.5 billion transferred by the end of July. We also closed on the Nexus Capital acquisitions with over $700 million of fee AUM in July. And finally, we closed on the acquisition on the remaining 50% of VBI that we did not own, all in addition to our ongoing fundraising.

With regard to operating expenses of $31 million or personnel expenses plus G&A, the increase of $5.8 million versus Q2 '23 and $6.2 million versus Q1 '24 mainly reflects the impact of our acquisitions of the private equity solutions from abrdn, the Credit Suisse REITs business and the subsidiary we formed with Bancolombia, in addition to incremental investment in marketing and technology resources. Looking ahead into the coming quarters, we expect expense growth to predominantly include the impact of the acquisitions noted above.

After factoring the impact of acquisitions, we expect little growth in underlying expenses as we recognize expense synergies, much of which we reinvest back into the business. Accordingly, we expect the pace of expense growth will moderate over the latter half of the year, particularly in Q4 and into 2025. Shifting to fee-related earnings. As Alex highlighted earlier, Q2 '24 FRE of $39.5 million was up a healthy 17% versus Q2 '23, and 13% versus Q1 '24. The slightly slower growth in FRE relatively to fee revenues reflect the impact from acquisitions as we onboarded new business with lower margins due to the structure of their fee rates, and we have not yet had an opportunity to realize any synergies from incorporating them onto our platform.

Overall, however, we were very pleased to have sustained an FRE margin of 56% in Q2 '24, which only decreased 1 percentage point compared to last year and 2 percentage points from prior quarter, but remained within our target range of 56% to 58% for the year. Looking ahead, we expect the pressure on the FRE margin to be transitory and for the margin to trend upwards, particularly in Q4 as we grow revenues, including the potential realization of incentive fees at the year-end, and we start to generate operating efficiencies.

Moving on to the distributable earnings. Patria delivered DE of $33.8 million in Q2 '24, up 8% versus the previous quarter and lower than the second quarter of '23, even though FRE was notably higher year-over-year. Q2 '23 include $10.7 million of performance-related earnings versus none in both Q1 '24 and Q2 '24. Also, in Q2 '23, net financial and other income was positive $0.6 million versus a negative $1 million in Q1 '24 and negative $3 million in Q2 '24, reflecting M&A financing costs, partially offset by about $0.6 million of income from our new energy trading venture in the second quarter.

Finally, our effective tax rate in Q2 '24 came in 7%, a function of our business and geography mix. We expect the tax rate in 2024 to remain between 7% to 9% and trending towards 10% in 2025. On a per share basis, Q2 '24 DE of $0.22 was slightly higher than the $0.21 we reported in Q1 '24 due to the above mentioning factors and despite a higher share count, reflecting shares issued for incentive and deferred compensation and contingent payments. Regarding the share count and excluding any potential benefit from share repurchase, we now expect the share count to finish 2024 and 2025 closer to $153 million and $158 million, respectively, compared to our prior forecast of $155 million and $160 million. The more modest share count growth reflects our expectation that we will need to issue fewer shares in 2024 and 2025 to fund deferred M&A and other contingent payments at this point.

So putting all together, we expect DE per share, excluding performance fees, to accelerate in 2025 as we continue to grow revenue and FRE, move past the increase in and start to reduce M&A-related finance costs and realize some expense synergies over the next 18 months, all before we factor the potential benefit from debt reduction driven by PRE and incremental share repurchases. Finally, with regard to the balance sheet, we finished Q2 with approximately $176 million of debt outstanding, and we expect to use our credit facilities and our cash generation to fund the remainder of the Credit Suisse transaction in addition to the acquisition of the remaining 50% of VBI. We expect our debt to average approximately $130 million over the next six months and potentially reach a peak of around $190 million at the year-end, all depending on the timing of our obligations versus our cash generation in a particular month and then to start to decrease again in Q1 2025. All the above excludes any prospective that pay down related to future PRE.

Our balance sheet for this quarter includes the acquisition of the global private market solutions from abrdn, part of the REITs from Credit Suisse and our new energy trading venture. However, we are still finalizing the opening balance for the GPMS acquisition, which will not be available until the end of August as per the purchase agreement. We have considered a best estimate for our Q2 consolidated balance sheet based on the seller's regulatory filings for Q1 2024. And this methodology was agreed with our [center] auditors and aligned with our Board. Rest assured that keeping a conservative balance sheet is a priority, and we continue to target a debt FRE ratio of 1x or less on average.

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Accordingly, to echo what Alex mentioned, when our expected debt levels are placed within the context of our strong confidence that we will generate $170 million plus of FRE in 2024 and $200 million to $225 million in 2025, we expect to remain well within our target range, even excluding any potential debt paydown from PRE generation over the coming quarters. We also want to highlight that our expected share count and debt levels incorporates our expectation for any deferred or contingent payments that may come due over the balance of this year and into 2025, while excluding any prospective benefit from share repurchase and/or future PRE that may be used to pay down debt.

In closing, let me reinforce once again our growth in terms of FRE and DE per share. We expect FRE per share to rise to $1.10 and $1.12 for 2024 from our previous guidance of $1.09, which reflects our expectation that the 2024 year-end share count will be modestly lower than we had previously guided to as we issue fewer shares and we use more cash to fund M&A and related contingencies. Our 2025 FRE per share guidance comes in at $1.26 to $1.41 with a midpoint of $1.34. At midpoint, this represents a 20% year-over-year growth.

Looking back to December '21, the year we went public, this FRE growth results in a strong 21% CAGR at the midpoint of our 2025 target range. Finally, we expected a strong FRE growth to also drive accelerated DE per share growth into 2025 as we move past from loaded M&A financing costs and excluding the DE impact of any performance fees. Overall, we are even more excited about the growth opportunity that lies ahead.

I will now turn back to Alex for closing remarks.

Alexandre Teixeira De Assumpcao Saigh - *Patria Investments Ltd - Chief Executive Officer, Senior Managing Partner, Director*

Thank you, Ana. So to sum it up, there are several key takeaways from the quarter. First, we remain very comfortable with our fundraising, FRE and FRE per share targets for 2024 and into 2025, and we expect to see accelerating DE growth in the second half of 2024 and into the next year as the full weight of our fee-earning AUM growth flows through and we move past the short-term headwinds resulting from M&A-related financing costs. We believe we have a long runway to grow fundraising, generate organic growth and grow FRE and DE as it remains early days in executing on the platforms we have added through our M&A strategy and the investments we have made in new products and distribution resources. We see multiple early proof points that this strategy is starting to pay off.

And lastly, we are focused on maximizing returns to shareholders and believe redirecting a portion of our capital generation to share repurchase is a very attractive use of our capital. This demonstrates that we will be flexible and opportunistic as we look to use our capital to drive profitable FRE and DE growth while maintaining a conservative balance sheet. Overall, we are very proud of the differentiated and diversified investment platform we have built both organically and inorganically, making us the largest alternative asset management platform in the region in terms of direct assets under management, revenues and fee-related earnings. We remain very excited generating our future growth prospects and look forward to providing a more complete update at our next Investor Day scheduled for December 9.

We thank you for your time, and we are now happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Tito Labarta, Goldman Sachs.

Daer Labarta - *Goldman Sachs - Analyst*

Alex and Ana. A couple of questions. I guess, first, on the deployment of the $200 million in the quarter. Can you give us some color on how you -- how that should impact the fees going forward from here? And which funds that is expected to go in? And then the second question on -- if you look at the real estate management fee, at least the implied fee was down a bit in the quarter. Can you give any color on that? Why that was a little bit lower?

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Alexandre Teixeira De Assumpcao Saigh - *Patria Investments Ltd - Chief Executive Officer, Senior Managing Partner, Director*

Tito, this is Alex and the team here. Thank you very much for participating in the call. Thanks for your questions. Most of the investments were from our infrastructure fee-related earnings, right? [That's what effectively related] earnings, infrastructure and the private equity funds. So Private Equity Fund V, a little bit VI and mostly VII are continuing to deploy capital and infrastructure -- now Infrastructure V is already committing capital as well. Just reminding here, the Private Equity VII already started deploying capital. We did acquire a food retailer in Brazil and looking to grow into the sector as an example. An example on the infrastructure side, we did win the concession of a toll road in the state of Parana. We also committed to other investments in Private -- in the Infrastructure Fund V.

On the real estate side, I think we did divest a couple of assets from our legacy real estate funds. We have two -- basically two families of funds. Now private equity real estate, which have a drawdown nature to it, where we raise capital and then we call capital and we divest as a regular private active fund, but of course, focused on real estate assets. And this is exactly what happened here. We sold -- among the assets that we sold, I'll name one, as an example, which is a self-storage business that we did hold in Brazil. This fund did hold in Brazil as an example.

And the second family of funds that we have in real estate are permanent capital nature funds where we then raise money and it increases the NAV, and we don't have to actually give that money back. So the divestments that you see there in that slide is related to the private equity real estate funds, which are now divesting assets and namely one of the assets or a significant asset that was divested over this quarter was our self-storage business in Brazil. I hope I answered your questions there.

Daer Labarta - *Goldman Sachs - Analyst*

Yes, that's clear. Thank you, Alex.

Operator

Guilherme Grespan, JPMorgan.

Guilherme Grespan - *JPMorgan - Analyst*

Two on our side. The first one is just a little bit on fundraising again, Alex, just to confirm. You mentioned, I think, you expect some additional closings in the Private Equity VII and the infra. Just remind us a little bit the timetable, like you have this fundraising open, then I think the expectations were $2 billion to $2.5 billion for each and with potential closes come in the second half.

And then remember for how long does it remain open to fundraising? Should we see the closing of this fundraising by when? And then -- and if you could also touch a little bit on the Fund V, I think was the first time I heard you were planning to launch opportunity for Fund V. And then the second question is just on GPMS. I saw -- we saw this quarter a little outflow on the vertical, I think, was $800 million. I just want to confirm what exactly was that and if it's related to abrdn or not.

Alexandre Teixeira De Assumpcao Saigh - *Patria Investments Ltd - Chief Executive Officer, Senior Managing Partner, Director*

Guilherme, thanks for your question. Again, thanks for participating also in the call. As we -- well, going back to the fundraising question, then I'll talk about the Fund V. Well, fundraising question, we see our fundraising organic -- I'm talking about organic fundraising. Now, organic fundraising really speed up. And I'm excited with what I see and the prospects with what I'm seeing for a couple of reasons. First, we have, of course, more products in our menu to fundraise. I know you saw that we did, of course, launch new funds, and I'll talk about some of those initiatives and also with the acquisitions that we did over the last years, we added also new products to our menu.

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Specifically, about Private Equity Fund VII and Infrastructure Fund V. Private Equity Fund VII is -- has raised around $1.5 billion. As of now, we want to continue to raise, until the end of the year, another $500 million target to reach the $2 billion that I mentioned. We see a pipeline of investors in due diligence, so we can actually read, of course, the funnel, right, the funnel -- the fundraising funnel. Most of that will come from Latin American investors. We see interest -- additional interest from Brazilian investors, Colombian investors and some Peruvian and some Chilean but mostly Brazilians and Colombians. And of course, also some investments or some interest coming from ex LatAm investors, some in Europe, some in the U.S. and the significant also portion coming from Asia.

So if you add all that, it adds another $500 million. Everything is, of course, rounded numbers, approximate numbers that will push then Private Equity Fund VII to $2 billion, which is the target number that I mentioned during my speech here. On Infrastructure Fund V, we are at $1.1 billion. We intend to reach the fund at $2 billion, $2.5 million. We see a very robust pipeline of investors also in diligence mode, and we see the funnel as well. So that's why we can see the $2 billion, $2.5 billion. Of course, to the funnel, we do apply probability to the funnel or higher probability and lower probability depending on the investor. That I think we see kind of half, half, a lot of interest coming from Latin American investors and another half of that additional number to reach $2 billion, $2.5 billion coming from international investors.

And again, a lot of Asians investors also in this next $1 billion, $1.5 billion to make this fund reach $2 billion, $2.5 billion. In addition to these two flagship funds, I think we're excited that we are raising money for other products that we did launch organically. And on the credit -- I'm just name -- I'm going to name some examples here. On the credit side, we managed to continue to fundraise for infra credit, which is a Brazil-focused fund to lend money for infrastructure-related projects in Brazil. We also launched a LatAm dollar-denominated private credit. Very excited, both of them, of course, as a joint venture here within Patria of the -- our credit Moneda partners and our infrastructure partners and also our Brazil credit team, and launching these 2 efforts on the credit side besides continue to perform well on the public credit funds.

We also launched a Chilean PIPE fund, a private investment in public equity, also successful fundraising there as the first close. We're already looking to do an investment there. On the real estate side, we focus mostly in fundraising for the VBI products. We had a good first semester, as you can see there from the numbers, and the Credit Suisse-related funds that we are transferring, we transferred to our management in June, July. We're now launching other fundraisings there. Now I cannot give a lot of detail because as these funds are under a fundraising mode, we have restrictions, what we can say because they are public offerings.

On the GPMS side, we did manage to already fundraise over $400 million SMA with a very important client and most -- as importantly as the number is the positive message of -- that a new client is committing to us after the acquisition of a significant amount of money, $400 million plus. And the private entity and infrastructure I already mentioned. So again, I think we see the organic fundraising pickup. First quarter, we did organically fundraise around $800 million, $900 million. Second quarter, $1.2 billion, $1.3 billion, pushing the number to $2.2 billion, $2.3 billion. So that's an LTM close to $5 billion, last 12 months. So I continue to see a positive flow making me reinforce the guidance that we're going to raise $5 billion organically in 2024.

And I think we should see this number picking up as we again have more products to fundraise, so -- and very good returns, solid returns in GPMS, in infrastructure, credit, all of these that I mentioned, continue to post very good results. Lastly, on Fund V and Opportunistic Fund V. I think that we were referring to SOF V, which is the Secondary Opportunities Fund #5. On the GPMS platform, which is the global private market solutions platform that we did acquire from the carve-out of abrdn, basically, there are three main businesses there, an SMA, special managed account, business that we focus on helping clients with primaries, secondaries and co-investment solutions in the private equity world, mid-market, global. In -- second family of products are the secondary funds, and we are raising secondary fund #5, which is a blind fund.

And contrary to the SMA that we have specific mandates for these 24 main clients. The SOF V, Secondaries Opportunities Fund #5 is a blind fund and it works in a much similar way as Private Equity Fund VII, Infrastructure Fund V, which you raise capital, commit it, then you draw down, you invest and then you divest and give back the money, and then you go out there and raise in this, my example here would be Secondaries Opportunity Fund VI, and here we go. So we're expecting a first close for this fund still in the second semester. So very excited there. And we see also through the funnel that it's going to be, I think, a good surprise for all of us here. Again, as it's the new fund that we are working together with our GPMS friends that came from abrdn.

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So we're excited with some investors already going to their investment committees and giving us a good message [in MAC] that they will commit to our first close, et cetera. So the third family would be a co-investment family of funds of blind funds that we're probably going to launch the first blind co-investment fund sometime next year. So we have the SMAs, primary, secondaries and co-invest that we work for several clients, but mainly for these 24 accounts. We have other smaller accounts, but the main accounts are 24 accounts. Then we have a family of blind secondary funds. We are raising Secondary Opportunities Fund #5, and we will launch a -- beginning of a family of blind co-investment funds, which the first one should come to fundraising mode sometime in 2025.

And what was the last question again? The outflow of GPMS in the quarter. It's -- the outflows of this quarter, you can -- you see it in private equity, you see some in infrastructure and answering your question specifically, outflow on GPMS is the -- very healthy nature of our business of giving money back. We are managing to sell assets and with that generate performance fees. As you can see that we did all the way back in 2021 with Private Entity Fund III. And then in 2022, Private Equity Fund V and an Infrastructure Fund III in '22, an Infrastructure Fund III in 2023. And we still see with good eyes that we're going to hit the $180 million of performance fees in the '23, '24, '25 three-year vintage as we gave the guidance. And the SOF -- and the GPMS is the same. We have these drawdown funds that we sell assets and then the assets go back to investors. And we do get performance fees and some of these assets we sell, and they don't reach the performance fee mode, like I mentioned, Private Equity Fund III, I mentioned Private Equity Fund V, I mentioned Infrastructure Fund III. But selling assets is very healthy, that takes us in the direction of the performance fee mode here.

And I think those were the three questions that you asked, and please remind me if I did forget anything here, Guilherme, please.

Guilherme Grespan - *JPMorgan - Analyst*

No, that's it, Alex. Thank you for the very detailed answer here.

Operator

Ricardo Buchpiguel, BTG Pactual.

Ricardo Buchpiguel - *BTG Pactual - Analyst*

I have just one here on my side. We have a lot of acquisitions closing recently. And with part of your cash locked with the SPAC deal that you have and also the announcement of the repurchase program, would it be necessary for Patria to look for new sources of funding in the coming quarters? And does it make sense for the company to keep its appetite of pursuing more M&As given this sort of capital constraint?

Alexandre Teixeira De Assumpcao Saigh - *Patria Investments Ltd - Chief Executive Officer, Senior Managing Partner, Director*

Yes. I think we -- one of the reasons actually that we did, of course, review our whole capital management strategy here was exactly everything that you mentioned here, Ricardo. We are extremely comfortable of the way that we see our cash flow over the next 6 months, over the 18 months. We -- as you know, we are a very healthy cash generation business, very light balance sheets. We're a service provider. We don't do a lot of investments. We do -- we see a couple of funds, but that very insignificant versus the whole scheme of things.

So as of today, you'll see the debt level that Ana mentioned, $175 million or $176 million at the end of the second quarter because most of these acquisitions that you mentioned, the carve-outs of the abrdn business and the acquisition of the Brazilian real estate funds from Credit Suisse, they landed in the second quarter, which is good from one side because we're already integrating these businesses. We already have all of the revenues. But it does, of course, make us have to commit to more cash outflows in the second quarter. As we saw conservatively, as we projected this, we saw these businesses being incorporated in Patria over the second quarter.

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And we had good news because the shareholders' meetings of all of the Credit Suisse funds went very well faster than we expected. They voted in favor of transferring the funds to Patria, also the regulatory approvals that we needed in the United Kingdom went faster than we expected, and we managed to then close these two deals in the second quarter. But as we move into the second half of the year, the beginning of the third quarter, we have a lot of cash coming in, where we receive most of our management fees in the beginning of the quarter, which is July and August. So you see the debt level coming down significantly to the $120 million, $130 million level that Ana mentioned in her part of the speech. And then we have a small peak in December because we have a Credit Suisse payment there. And then again, in the beginning of 2025, we have all the management fees coming back, and we should go down to the $120 million, $130 million level, which is a very, very comfortable level for us.

Just as you know, we have $170 million of FRE, $200 million, $225 million of FRE for next year. So $120 million, whatever is 50%, 60% of our FRE, and we are not considering here any performance fees, which I mentioned a couple of minutes ago that we still see performance fees coming in. So all of these numbers, this $120 million, $130 million of debt is 60% of the $170 million and it is half of the $200 million, $225 million of FRE for 2025, not considering the performance fees. We mentioned in, I think, two earnings calls ago that we would use $100 million of the performance fees coming in to pay down debt.

So if you apply $120 million, $130 million of debt and you use $100 million of performance fees over the next months, quarters to use that to pay down debt, then the debt goes to insignificant numbers in my example here of $20 million, $30 million. So very -- in a very comfortable position and all that's already incorporating our dividends and our share repurchase program. However, now going back to your second part of your question, we will most probably not pursue any other acquisitions this year or early next year because we are integrating these businesses. So it has more to do with the integration.

As we mentioned, we managed to close two of these deals in the second quarter. We were expecting to close them in the second half of 2024. So we're not going to -- we are focusing on the integration and people, system, processes. So it would not be very much advisable for us to do a large acquisition for that point of view, not from a balance sheet point of view in the second half of 2024, early 2025. So our focus will be over the next quarters in the integration. But balance sheet wise, we're comfortable. I hope that I answered your questions, Ricardo.

Ricardo Buchpiguel - *BTG Pactual - Analyst*

Thank you very much, guys.

Operator

(Operator Instructions) Pedro Leduc, Itau BBA.

Pedro Leduc - *Itau BBA - Analyst*

A few here. First, on the personnel expenses that we saw it going up with the M&A integration, obviously, wondering if it's here or on some other regions where we could start seeing synergies in the coming quarters? That. And in the conciliation of IFRS to non-GAAP measures, we saw a lot of expenses flowing through it here and some are M&A-related, some fees, tax. Wondering if we should see those fading out into the next quarters already, so maybe a closer relation between the earnings, IFRS and the non-GAAP.

Alexandre Teixeira De Assumpcao Saigh - *Patria Investments Ltd - Chief Executive Officer, Senior Managing Partner, Director*

Pedro, thanks for your question here. It's Alex again. And Ana is here also with Marcelo, to help me answer the questions. But yes, personnel went up because of the integration. These businesses that we did incorporate in the second quarter are businesses with lower margins at the first month. We mentioned a couple of earnings calls ago that GPMS runs a 30% FRE margin business. And you know that we run an upper 50% level FRE margin business. And the same with the real estate business from Credit Suisse/VBI that will be incorporated in the second half of 2024.

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And as we work into the synergies, you will see FRE margins go up. I think this year, it will become -- it will land in the 56%, 58% level FRE margin. And we see it going up, trending up in 2025 back to the 60% -- 58%, 60% level. And how do we do that? Through the integrations. We went already through that process with the acquisition of Moneda. Late 2021, we did sign the acquisition of Moneda. Moneda was running a 40% -- approximately 40% FRE business. We were running a 60% FRE business. In 2022, you saw that margin also trending up. End of 2022, we were back to the 60% level -- close to 60% level. So by integrating expenses -- and our main expenses now are personnel, which is 80% -- 70%, 80% of our expenses and then rent and travel, whatever, is not a significant portion.

So it's personnel. And that's what we're going to do as we move on into this year and into 2025 through the trending up that I mentioned to you, 56% to 58% this year and 58% to 60% FRE margin next year. We know how to do this. This is our day to day. You know that we run consolidation private equity buyout business. So we have done more than 100 of those consolidations in Brazil, in LatAm and whatever, looking for synergies in processes, IT and of course, sometimes in people as well. On the IFRS side expenses, yes, they did go up significantly this quarter. It has mostly to do with the expenses that we did run because of these two closings that happened in the second quarter. But I'll ask -- I'll turn over the floor to Ana to comment -- to make a few comments on that, please.

Ana Russo - *Patria Investments Ltd - Chief Financial Officer*

So the main variance that we have for this quarter has to do with all the transactions, M&As that we closed. And I just want to point out it was three that impacted quarter. So we have all the abrdn acquisition that impact significantly the line of transaction costs, which means different expenses when you say -- also the effort for the transferring of the Credit Suisse funds, which also was hit this quarter. We also have a smaller -- if not that [segment], but we start having as well for our Nexus as well. And of course, what is normally part of the -- those transaction and remaining transaction is a small part.

On top of that, when you see on the deferred and contingent consideration has to do with our option that we have to evaluate with VBI -- option with VBI, which we have to evaluate every quarter. And actually, specifically this quarter, there is an adjustment that also was included in this line of -- that I have just mentioned. So I think all in all, that is the main variance that we have in this quarter in these two lines from other transaction costs and deferred and contingent consideration related to adjustment of our VBI option. If you -- just as minor, but if you look into our financial income expenses unrealized, which is $3 million, this is all related to FX or investment in reais, which impacts -- is unrealized, as it impacts our -- this line because of the real devaluation.

Alexandre Teixeira De Assumpcao Saigh - *Patria Investments Ltd - Chief Executive Officer, Senior Managing Partner, Director*

Yes. So we -- yes. And here, Pedro, I think one of the lines is cash related, which is the expense, the transaction expenses. The other ones are not cash-related costs and expenses. And just going back to your comment, as we move into the third and fourth quarter, as we did exercise the VBI option and we did close the abrdn transaction and the Credit Suisse transaction in the second quarter, these numbers should be washed out from our P&L, and we should go back to where we were in prior quarters.

So yes, everything happened. It was a very busy quarter. I actually tried -- I actually started my speech there. I'm very proud of the team, to be honest, because we have such a very busy quarter of two closings, plus now the VBI option that we did and now the acquisition of the other 50%. And all of that is happening in the same three-month period. So yes, so this will be washed out and we would go to more normal levels in the next quarters. Thank you.

Operator

Thank you. And I am showing no further questions from our phone lines. I'd now like to turn the conference back over to Alex Saigh for any closing remarks.

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Alexandre Teixeira De Assumpcao Saigh - *Patria Investments Ltd - Chief Executive Officer, Senior Managing Partner, Director*

Okay. Thank you very much, all of you participating in the call, and thanks for your questions here and Tito, Pedro, Guilherme, Ricardo, thank you very much. I know that you guys have a very busy morning with so many financial institutions also having their earnings call. So thanks for participating. Hope to see you guys [presently] in person soon in New York or some other place. Thanks again. Have a great day. Goodbye. Ciao, ciao. Gracias.

Operator

Thank you. This does conclude today's conference call. Thank you for your participation. You may now disconnect. Everyone, have a wonderful day.

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