REFINITIV STREETEVENTS

EDITED TRANSCRIPT

PAX.OQ - Q3 2024 Patria Investments Ltd Earnings Call

EVENT DATE/TIME: NOVEMBER 05, 2024 / 2:00PM GMT

REFINITIV

CORPORATE PARTICIPANTS

Rob Lee *Patria Investments Ltd - Head of Shareholder relation*

Alexandre Saigh *Patria Investments Ltd - Chief Executive Officer, Director*

Ana Russo *Patria Investments Ltd - Chief Financial Officer*

CONFERENCE CALL PARTICIPANTS

Craig Siegenthaler *Bank of America - Analyst*

Beatriz Abreu *Goldman Sachs - Analyst*

Ricardo Buchpiguel *BTG Pactual - Analyst*

Guilherme Grespan *J.P. Morgan - Analyst*

PRESENTATION

Operator

Good day. And thank you for standing by. Welcome to the Patria third quarter, 2024 earnings conference call. (Operator Instruction) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your first speaker for today, Rob lee, head of shareholder relations. Please go ahead.

Rob Lee - *Patria Investments Ltd - Head of Shareholder relation*

Thank you. Good morning, everyone and welcome to Patria's third quarter, 2024 earnings call. Speaking today on the call are our Chief Executive Officer, Alex Saigh and our Chief Financial Officer Anna Russo and our chief economist Luis Fernando Lopez.

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 six K 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 part of fund.

As a foreign private issuer, Patria reports financial results using international financial reporting standards or IFRS as opposed to us, 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.

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

Thank you, Rob and good morning, everyone.

The third quarter of 2024 was an exciting quarter for Patria as robust organic fundraising of over $2 billion in the quarter and more than $4.2 billion a year-to-date through the end of the third quarter, put us on track to meet or exceed our $5 billion fundraising target for 2024.

Additionally, over the last 12 months to the end of the third quarter, we raised over $5.6 billion organically.

This highlights how the increased diversification of our platform and the investments we are making in distribution and new product development are translating into stronger and more diverse growth for the firm.

Leaving us very excited about what lies ahead.

Now, let me quickly summarize our third quarter results before we move on to some of the fundraising and other highlights for the quarter.

Management fees reached approximately $78 million for the quarter up 26% year over year.

While fee related earnings reached almost $41 million.

Representing year over year growth of close to 13% fee related earnings per share in the quarter was $0.26.

Up more than 65%. Since 2021 we delivered close to $35 million of distributable earnings in the quarter or $0.23 per share next.

While we did not realize any performance fees in the quarter, we continue to generate attractive long term investment returns for our clients and we feel good about our potential to generate performance fees over the coming quarters, the net accrued performance fee balance of $455 million or $2.97 per share increased slightly sequentially due to both performance and foreign exchange movements.

As a reminder, our infrastructure fund three with about $96 million of net accrued performance fees is already in its catch up phase.

And we have returned close to $2 billion to investors in our infrastructure funds. Since the start of 2023 the earning a of almost $34 billion rose 9% sequentially and 58% year over year.

And we believe we have a line of sight into solid organic growth into the fourth quarter and 2025.

The sequential increase was driven by strong fundraising plus the additional of $2.2 billion mainly from the final transition of Credit Suisse real estate assets.

The closing of the nexus transaction in Colombia and the positive investment performance and foreign exchange.

These inflows were partially offset by our continued robust pace of returning and recycling capital back to investors through realizations and distributions and important positive attributes of our business in an industry that has struggled to return capital back to limited partners.

Also our redemption rate on fee earning aum continues to moderate as most of our assets are in long dated, locked up capital structures and as the proportion of our fee earning aum in permanent capital vehicles continues to increase and now accounts for more than 20% of assets up from practically zero at the time of the IPO our growing and increasingly diversified base of fee earning aum of almost $34 billion pled with solid fundraising and tight expense controls, give us confidence that we remain firmly on track to deliver our fee related earnings targets of $170 million in 2024 and 200 to $225 million in 2025 on a per share basis. This is a dollar and $0.10 to a dollar and $0.12in 2024 and a dollar and $0.26 to a dollar and $0.41 in 2025 and reflects year over year growth at the midpoint of 12% and 20% for 2024 and 2025 respectively.

In keeping with our updated capital management strategy announced last quarter, we declared a 15¢ per share dividend for the quarter.

As a reminder, we will pay $0.15 per share of dividends through the fourth quarter of 2024.

We also finished the quarter with a 12-month rolling debt to FRE ratio of approximately one time.

We look forward to updating everyone on our capital management strategy at our December '9 Investor Day in New York.

Overall, our financial results and strong fundraising is evidence that our strategy to diversify and grow our business both organically and inorganically is paying off.

It's been less than four years since our IPO.

But in that time, we have greatly expanded our regional and global investor base and distribution capabilities and have significantly diversified our investment and product platforms.

Evidence of our progress against our strategic initiatives can be seen in the fact that over $4 billion of our fundraising year-to-date has come in strategy and our product structures that we did not offer at the time of our IPO.

Also one of our key initiatives since our IPO has been to become the premier gateway for local investors to invest in locally managed alternatives to take advantage of financial deepening consolidation in the industry and to better serve the many regional institutional investors who are limited in their ability to invest outside the region.

Our early success with this initiative is reflected in the fact that about 40% of our fundraising year-to-date that has come from local investors within Latin America, investing in local products that we manage compared to virtually zero at the time of our IPO.

As a result of our diversification strategy, we are now better positioned than we have ever been to be the go to provider of alternative products within Latin America for both local investors and global investors and grow our business as limited partners look to consolidate the number of managers they do business with.

No, let's have a closer look into our investment verticals.

First, our real estate platform is generating strong growth and greatly enhances the resiliency of our business even before we completed in the third quarter. Our acquisitions of the Brazilian real estate investment trust business of credit Suisse and the Nexus real estate business in Colombia.

Our real estate fee earning aum had grown almost threefold from $1.3 billion in the second quarter of 2022 or since our initial investment in VBI to $3.9 billion. At the end of the second quarter of 2024.

In just over two years, the combination of acquisitions and organic growth has driven our real estate fee earning aum to over $6 billion.

Approximately 90% of which is permanent Captain Patria is now the largest independent real estate investment trust manager in Brazil.

A market we believe remains ripe for consolidation and affords meaningful growth opportunities through new product launches as well as secondary offerings.

In addition, there's the opportunity for additional long-term growth in fee earning a through investment performance. Credit is another positive story that exemplifies the progress we are making on our strategic priorities.

Credit fee earning AOM have reached $6.5 billion up 43% since the end of 2022.

On the back of strong organic net inflows of over $760 million and market appreciation and foreign exchange of approximately $1.2 billion.

As these strategies also earn fees on net asset value.

The approximately $450 million of credit assets raised in the quarter was led by $190 million that flowed into our leading high yield Latin American strategy as highlighted in the earnings presentation.

This strategy has outperformed its benchmarks across virtually all time periods and we see a long runway for growth in our credit business, given the combination of our strong investment performance and a large addressable market in which there is very low investor penetration.

We're also excited about the successful launch of several new private credit strategies such as our infrastructure private credit fund in Brazil along with the support of development banks such as the IFC and the BNDES as anchor investors and our US dollar denominated Latin American private credit fund.

Even though it remains early days, our GPMS Solutions business with over $10.3 billion of fee earning AUM is off to a great start having raised over $1.8 billion in the second quarter and the third quarter.

And since we've closed on the acquisition of the Aberdeen Solutions business, with momentum continuing into the fourth quarter.

Fundraising high points in the third quarter for GPMS include a private equity SMA of over $900 million and an initial closing of $100 million for our next vintage commingled fund including additional closings early in the fourth quarter.

Fundraising for our next vintage commingled fund has reached over $190 million.

Our early success in this new vertical highlights our ability to bring new solutions to our clients grow in the very attractive high growth, secondaries and solutions market and reach a global investor base.

With regard to our infrastructure strategies, we have returned to investors close to $2 billion of capital from our funds since the start of 2023.

And infrastructure fund three, which is in its catchup phase is expected to generate performance fees over the coming quarters depending on the pace of realizations.

In addition, within infrastructure, we see significant deployment opportunities across Latin America and global interest in infrastructure within the region is possibly best exemplified by the mou we signed with the Saudis Ministry of Infrastructure last quarter to be one of their infrastructure investment partner in Latin America within private equity realization activity remains constrained as it does across the industry.

But we are very pleased with the underlying performance of our portfolio companies which in the aggregate grew Ivia 20% over the past year organically, we also continue to focus on our platform strategy and the ample deployment opportunities we see in front of us in particular. However, we are very excited about the signing of a $500 million mou for an SMA with an Asian sovereign wealth fund to invest directly in both our private equity and infrastructure funds, as well as co investment opportunities in both strategies.

This new long term relationship also highlights our premier positioning as a gateway into Latin America for sophisticated global investors.

We are very proud that our strong fundraising highlights our enhanced product, geographic and investor diversification allowing us to raise capital and perform across different macroeconomic environments.

This makes us less dependent upon shifting fundraising cycles in individual asset classes or markets and enhances the resiliency of our business and long term growth relative to the time of the IPO. There is clear evidence that pasta today has materially improved its revenue, visibility and predictability, significantly strengthening our business overall.

We are very excited about our outlook and the progress we have made on our various strategic initiatives in the short time since our IPO, we look forward to providing you with a deeper look into our platform and strategy and updating investors on our new three-year plans at our December '9 Investor Day in New York.

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

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

Thank you, Alex and good morning, everyone.

As Alex mentioned, the highlight of the quarter was our robust fundraising led by our new platform.

We believe our diversified fundraising momentum is sustainable, helping us build and strength our base of fee earning a and management fee growth supporting our confidence in our 2024 and 2025 guidance.

Let's review our third quarter results and the building blocks to reaching our Fee guidance for the remainder of the year net fee revenue in third quarter reached $75.9 million and $207.6 million a year-to-date up 28% and 19% respectively.

The main drivers were the multiple acquisitions we concluded over the past year of which two of the most impactful were the acquisition of the global private market solutions business from Aberdeen and the Brazilian risk business of Credit Suisse.

We also generated strong growth in our credit earning a as a result of solid inflows and investment performance.

As Alex mentioned earlier, our robust fundraising was partially offset by our success in returning capital to our investors through realizations and distribution private und four also had its plan step down in fee earning a in the quarter, we do not expect any additional notable fund step downs in 2025.

As we diversify our business and onboard new platforms and investment strategies, our management fee rate continues to evolve. For example, our fee rate in 2023 was about 1.21% compared to an average fee rate of 0.96% year-to-date and 0.94% in 34.

In the earnings presentation, you can see that we fine tune our disclosure of the average main fee by platform to help you understand the development of our effective fee rate which can move around noticeably quarter to quarter depending on mix.

It is important to mention that our fee rate is being driven by the growth in our newer platforms vis A vis private equity and infrastructure as highlighted by our year-to-date fundraising. We believe this platform has significant growth prospects and many of our newer strategies are permanent capital and or earn fees on market values or NEV this provides the long term opportunity to compound our fee earning aum and related management fee revenues with investment performance as evidenced by the robust investment and returns generated by credit that positively impacted fee earning AUM in the quarter and year-to-date, moving on operating expenses which includes personal and G&A expenses total $34.7 million in the quarter up $11.8 million versus Q3 23. More than 70% of the quarter over quarter increase was driven by acquisition with the remainder attributable to increased personal expenses reflecting salary increases, continued investment in our business. In addition to the impact of inflation also impacting the year over year. Comparison is the fact that Q3 23 was the first time our new equity compensation program was accounted for in the P&L overall. Our year-to-date operating expenses of $90.5 million rose 18 million or 25% with almost 65% of the variant related to our M&A activity and the balance coming from increase of personal costs, investments in infrastructure, marketing and distribution and the impacts of inflation, putting it together pa to deliver fee related earnings of $40.6 million in the quarter. Up 13% versus the prior year and 100 and $15.2 million year-to-date representing an increase of 14%.

As we noted in the past acquisitions generally have an adverse short term impact on margins as the new business being onboarded generally have lower margins. And before we have an opportunity to capture operating efficiencies, which happens over time.

Also, since we continue to invest in our growth, real life, operating efficiencies are substantially reinvested back into the business, but we expect margins to improve with the emergence of topline growth.

So as a result, our effort emerged in the third quarter was 53.4%.

While our year-to-date margin was 55.5%.

As a reminder, we previously guided to a full year FRE margin of 56% to 58% inclusive of 44, which typically includes incentive fees in 2025. We continue to expect the effort emerging to trend towards the 58 to 50% range by year end driven by a combination of revenue growth and the realization of incremental expense efficiencies.

We will update our 2025 and long term margin guidance at our December 9th Investor Day, we believe we are on track to generating $170 million of FRE for 2024 as we expect continued growth in fee earning a un and fee revenue helped by strong fundraising, an improvement in the FRE margin in the fourth quarter.

As a reminder, most of the, our incentive fees are recognized in the fourth quarter and incentive fees tend to be high margin and driven by our credit real estate and public equity business. For perspective, we generated $6 million of incentives in Q4, 2022 $4 million in the Q4 23. And so far in 2024 performance has remained strong. Thanks in large part to our previous acquisition, we have a large number of strategies eligible to generate incentive fees.

As a result, we think we are currently on track to generate incentive fees in the high single digit range net. Our net financial and other income and expenses in Q3 24 total one negative $1.5 million and a negative $5.5 million year-to-date.

This line item mainly reflects interest expenses on our credit facilities. Partially of that by gains generated in our new energy training platform, TRIA of $2 million in Q3 and $2.6 million year-to-date.

Regarding distributor earnings, we generated $34.9 million in the quarter, up 5% versus prior year and year-to-date of $100 million up more than 5% when we exclude performance fees crystallized last year, the growth in the de came despite the higher financial expenses noted above on a per share basis, Q3 DE of $0.23 was essentially flat sequentially and year over year due to financial expenses, higher taxes and higher share count as we will review shortly, we expect that the per share growth to improve in 2025 as we move past the short term handlings while we have not crystallized any performance fees.

So far. This year, we still expect to generate performance fee over the coming quarters driven by infrastructure fund three, it remains our intention to use real PRE to pay down our M&A in credit.

Our effective tax rate of 10.6% in Q3 24 was higher than previous quarters and reflected our business and geography mix in the quarter year-to-date. The effective tax rate was 8.8% and we still expect the full year tax rate in 2024 to be between 6% and 8% and trend towards 10% over the next few years.

Regarding the shares outstanding, we continue to expect the share count to finish 2024 around $153 million in 2025 between $158 million and $160 million which includes all shares expected to be issued because of regular stock-based compensation as well as shares to be issued related to the confusion and deferred M&A payment.

Our share count guidance does not incorporate any benefits from prospective share repurchase. Shifting to the balance sheet we finished Q3 with approximately $165 million of debt outstanding down from $177 million at the end of the second quarter, we expect our debt to reach a peak of approximately $190 million at the end of the year. As we fund M&A and other yearend payments, the actual level of debt of course will depend on the timing of our obligations versus our cash generation in a particular month.

Heading into 2025. We expect debt levels to decrease as the year progresses as we generate cash and fund M&A related deferred and contingent payments, which we expect to total around $100 million of which about 60% we expect to be settled in cash or debt and the balance through the issuance of shares as reflected in our FRE per share targets.

We note that we expect our debt to FRE ratio as we move through 2025 to be below our target of onetime FRE. We would also note that the interest rate on our debt is based on. So, so reductions in the short-term interest rate have a beneficial impact on our borrowing costs.

Finally, why we believe are the best financial metrics with which to gauge our results and ongoing earnings power and are the metrics that are most comparable with our alternative manager peers? We would like to comment on some items in our deed to net income reconciliation.

You will notice that transaction costs our M&A related expenses declined to half of what we had last quarter to $6.5 million as M&A activities has moderated, we would expect this trend to continue as we have no current M&A plan for the next couple of quarters.

Our equity and long-term compensation was $15 million in 2023 and $13 million a year-to-date and consistent with our prior guidance, we expect to have 20% increase versus last year as our new program evolved to its 2nd year overall. We believe we are on track to meet our FRE targets for 2024 and 2025.

And we expect the per share excluding performance fees to accelerate into 2025 as we continue to grow revenues and I realize some expense synergies over the coming year all before the factor in the potential benefit from any debt reduction, reduce interest expenses and incremental share repurchase our robust fundraising momentum makes us even more excited regarding the growth opportunity that lies ahead. We look forward to presenting a more detailed update on our business and expected financial targets at our December Investor Day which we hope you all can attend.

I will now turn back to Alex for closing remarks.

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

Thank you, Ana.

So to sum it up, there are several key takeaways from the quarter.

First, we believe our fundraising highlights the success we are having in leveraging our acquisitions and investments in our platform.

We remain very comfortable with our fundraising fee related earnings and fee related earnings per share targets for 2024 and into 2025 and expect to see accelerating distributable earnings growth into the next year as a full weight of our fee earning aum growth flows through and we move past the short term fee related earnings and distributable earnings headwinds resulting from M&A costs.

We believe we have a long runway to grow, fundraising generate organic growth and grow fee related earnings and distributable earnings 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.

Lastly, we are focused on maximizing returns to shareholders and we are excited to provide further colour on our updated capital management strategy we introduced in the second quarter overall. We remain very excited about 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 happy to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. At this time. We will conduct a question-and-answer session as a reminder to ask a question, (Operator Instruction) Please stand by while we compile the Q&A roster.

The first question comes from the line of Craig [Sval] of Bank of America. Craig. Please go ahead.

Craig Siegenthaler - *Bank of America - Analyst*

Good morning, Alexandre. Hope everyone's doing well. My question is on fundraising. So, with $4.2 billion raised year-to-date, you're now in striking distance of the $5 billion target for the full year.

And GPMS is driving more than half the inflows just in this past quarter. So, I wanted your perspective on how GPMS has altered your organic growth trajectory. And do you expect it to continue generating an outsourced contribution to fundraising relative to its size going forward?

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

Hi, Craig, how are you? I hope you and family are doing well. And thanks for your question and thanks for participating in such an important date, right? We have a US election today and between us election and Patria's earnings call, I I'm glad that you opted for the second.

But yeah, here we go. I think we know very excited with the, the, you know, the first data points that we have on the GPMS organic fundraising. And it knows it ties to the whole strategy of adding to our platform products geographically within Latam and, and outside of Latam that are, are more linked to what, you know, investors are willing to buy. And again, we try to sell what we want to sell, but in the end, we sell what investors want to buy, right? And so yes, we're having a very good fundraising momentum with GP MS and I think that momentum is going to continue.

We are at $4.3 billion as of the end of the third quarter, organic fundraising. And I see that momentum pushing us of course. Now, if I do the math, no, of course. And the fourth quarter of the year is the best for sure. The $5 billion guideline is already right in the pocket, right? And so that actually pushes us to very good entry in 2025 with GPMS, with credit with real estate, with infrastructure and lastly with private and the private, as I mentioned, several, several quarters earnings call one after the other over the last each quarters.

Unfortunately, we're no underperforming us, underperforming private X the other over performing the other as classes that I performed and over performing Middle East Asia and Latin America. And now with GPMS, we're now in my view over performing Europe because most of the money is coming from European investors, right? For the GPMS product.

So happy to see our initial experience with the yeah, as a class as you know, secondaries and or GPMS solutions. Primary secondaries are coinvest is the hot product of the moment as us on the GP side. And most GPS, they, they want to actually give liquidity. They need actually to send money back and find liquidity for their portfolios. So, they do GP led transactions. Also, LPs one, you know, revolve wants to actually revolve their portfolio, selling all the funds and committing to new funds because new funds are coming to the market. So, they also use the secondary market for that kind of liquidity.

So everything is working in in the direction of this asset class. So yes, I think we go into, you know, we finished 2024 with very strong fundraising numbers for us, not for our size. Even the $5 billion target guideline compared to where we started, we started the year with around $26 billion of fee paying a. So, 5/26 was already at 20%. And if we outperform the five, we know we are performing, they are also the that that this KP I that I just mentioned. So yes, excited, excited Greg and the on the lastly here, the, the kind of we have to know fundraising structures through the GPMS, the SMAs and a lot of SMAs that are being renewed. So clients that are vowing to the team and vowing to Patria because they're renewing their mandates and new money, completely new money, new, new, new clients, all of the in the S MA structure, which is very, very perpetual.

And secondly, the blind fund structure which is secondary is the opportunities for number five, which we already had the first close. And I think definitely moving the direction, to know fundraise what we expected or a little over what we expected. Credit has been doing fantastically as well. And as you saw the numbers there, not only on the fundraising side but on the performance side, the team is doing an incredible job beating the benchmark in all of the ways that you want to see it. You know, last 12 months, last two years, last five years, last 10 years, whatever in all of the, in all of the products in the, from the high yield, that time dollar denominated local Delta products.

No, it's very impressive and lastly real estate, very strong fundraising as well. And throughout the all the real estate investment trust strategies that we have not only in Brazil, but in Colombia became a major asset class for us. And as you know, 90% of the C fa of the, the real estate asset classes in Perm is in permanent capital structure listed funds. So again, I think the strategy is working and I'm and I'm glad to see the results. Thank you very much.

Craig Siegenthaler - *Bank of America - Analyst*

Thank you Alexan, very comprehensive. Just for my follow up also on fundraising, specifically on private equity seven and infrastructure five. Should we expect? Final closes for large closes for both in four Q and then Alessandri, we heard your commentary on a $500 million SMA with an Asian Sovereign Wealth Fund. And I think that will invest directly in private equity. Seven. Infrastructure Five. Can you help us with the timing and size of that one? Does that also flow in, in the fourth quarter?

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

Yes. Private actually seven, I know we still keep the $2 billion mark as for Infrastructure five.

And yes, it's the, the SMA that we signed is not in, that is not in these numbers, but these numbers that you see from our slide number. There's a slide that actually shows here. Number 16 in the presentation that we uploaded. The numbers that are shown there does not include this S ma that you just mentioned is a $500 million half and half 250 for each of the funds. Most of what part of that is going to be through the fund structure, the traditional fund structure and part is going to be through fee paying co invest. So, because this specific sore wealth fund wants to have part of the fund and part wants to actually over to get an over exposure to one of the two companies of Fund seven or Fund Infrastructure Fund five, but that those are fee paying, not fee paying. So, and are not included in the numbers.

In addition, we have other that these types of SMAs that we are actually going after and, and now, you know, happy to this this Asian Sovereign Wealth Fund is in addition to what we mentioned during the call. A also am ou with the Minister of Infrastructure of the Saudi government and also they want to invest through the fund and through SMAs so similar structures and we see that these very large global institutional clients are looking for that kind of relationship.

Now, I I'll, I'll, I'll, I'll sign a check to your fund because I understand that you need the fund to be sign. But I also want to pick and choose, but I'll pay for pick and choosing is, but I want to have this pick and choose kind of option. So, this is what we call the SMAs. So also, for the Middle Eastern Sovereign Wealth Fund, which is in addition to the Asian that, that you mentioned, Craig and, and lastly, we know we're still very much in a fundraising mode, a very good fundraising mode in other countries of that time. Ex we started a little later, the fundraising in Chile, Peru, Colombia and Mexico and in the Indian countries, we, I think we, we still expect to see a good amount of fundraising still completed this year and early next year.

And that we can continue fundraising for infrastructure fund five up to mid next year and private active fund seven international portion, which is exam, but some few accounts that we ask to be exempt from this limitation, finish the fundraising end of this year. But for that time, we can continue fundraising up to mid next year as the fundraising started in different moments.

So we still have for repeating here because it's an important information for all of you guys know, private active fund seven. We finished fundraising X Latam. With the exception of a few names of the solvent wealth funds that I that I mentioned, but we can still raise money within Latam up to mid next year. Infrastructure fund for no lack time and ex la time clients up to mid next year. So, we still have whatever 778 months ago. Hope I answered your question.

Craig Siegenthaler - *Bank of America - Analyst*

Thank you, Alessandra.

Operator

One moment for your next question.

The next question comes from the line of Beatriz Abreu of Goldman Sachs. Beatriz , please go ahead.

Beatriz Abreu - *Goldman Sachs - Analyst*

Hi, good morning, everyone. Thank you for the call and for taking my questions. I have two questions. One on FRE margin if you could please repeat your expectations for FRE margin for next year. I didn't quite catch that, but I wanted to know if you expect some expansion to happen in FRE margins in 2025.

Due to synergies that you may be able to capture some acquisition. And also, I understand the margins should maybe go up and for you as revenues are usually higher because of incentive fees. But should we expect that that margin to, to go back to 53% to 54% level and one Q next year, is that increasing throughout the year? It would be great to get some colour on that.

And for my second question, second question on the tax rate, you mentioned that you still expect 6 to 8% tax rate this year. And that would imply a lower effective tax rate in four Q. Maybe you could give more call on what would be the reason behind that? A patient and we should expect the effective tax rate to increase towards the 10% already in the next year. Thank you.

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

Okay. Thank you, Beatriz. Thank you also for participating in our call. This is Alex here.

I'll take your first question and Anna will take your second question on tax.

So as far as margins are concerned, of course, you saw the margins for this quarter a little lower than previous quarters because we did absorb 100% of the Aberdeen GPMS Business and the real estate, not only VBI but the Credit Suisse DC businesses, the Credit Suisse real estate Investment Trust, the VBI Real Estate Investment Trust and the GPMS know the Car out of Marine, the three businesses, they have had the lower margins than we did operate. And I mentioned during the announcement of these three deals that, GPMS Robert Dean Carval was running a 30% FRE margin as the real estate businesses. Right. And we do run an upper 50s, FRE margin, right.

So we did absorb these businesses in the third quarter in a, in a full quarter. Remembering that in the second quarter was just a partially absorbed because these businesses came in late in the second quarter. So, the whole, this whole fee businesses were fully absorbed during the third quarter. And of course, the margins come down.

I see margins going up to the high upper 50s in 2025 as we move to integrate the businesses. And I know I can know, show you what we have done in the past, I think when we did absorb the MDA business, the, the Chile and asset management business that we acquired late 21. At that time, we announced that MTA was running a 40% FRE margin business during 22.

You saw margins coming down also to the mid f lower 50s range and then we pushed margins up again to 60% FRE by the end of 22 and then it comes 23 we did other acquisitions there and I think, and, and comes 24 the same effect. So, know we know how to do this. I'm confident that we're going to push the margins up again, back to the upper 50s as far as the first quarter of 2025. I'm not sure where we're going to land in margin. So, I, I know I would say a mid F number, I think 53 and it's now kind of the low end of the mid 50s number. We should reach the, the upper 50s as a year as a complete year, full year, 2025 not, not in the first quarter, first quarter, more mid-50s.

And then I'll turn to other for your second question.

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

Hi, good morning. As mentioned, this quarter. Our tax effective tax rate reaches 10.6% and the year-to-date is 8.8%.

This is all caused by the different mix of jurisdictions that we have our income. And basically, the signal of our diversification that we have in the onboarding of new, the new company, the new M&A and what we basically are envisioned by throughout the end of the year that this should be between the tax rate could be between 6% to 8%. And this is also again, the, basically the result of the income we have in each jurisdiction and also the different expenses that hits our fourth normal, normally hits our fourth quarter income and expenses in that particular quarter. So, this is what we believe.

And as I also mentioned during the IPO that our evolution and diversification would bring tax through closer to a 10% throughout the year. That's what we are looking into a 2025 tax, right.

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

Yeah. And just getting back to the to the margin question again, just to use some examples here. Just so again, I think you, you alluded to this, Beatriz during your question, but in the fourth quarter, we do have higher margins because of the incentive fees and using as a 2023.

And as an example, the fourth quarter of 2023 we had 70%- 71% no FRE margins, compared to, you know, the third quarter of 2023. That was in the 60s. So, we actually increased by 10% points, the FRE margin in the fourth quarter that trend should also happen here in this year of 2024 as we move into the year and as you look into the $170 million of FRE and we are at 115, how can we bridge this remainder? 55 is now, if we do a similar quarter of $40 million-$41 million of FRE, we're up to 155. Now, then we have around $10 million of, incentive fees around 10, that's already 165 that we have to bridge $5 million for the 170. So, we're, if we repeat the, the third quarter. And as I said, we need to all these businesses in the third quarter, and we already started integrating them. So, we're moving up the, the margin ladder in the fourth quarter. I need $5 million GAAP between the fourth quarter and the third quarter not pretty feasible That's why we are confirming our $170 million FRE for 2024. And that's now that trend would also happen in the 25 and going forward.

I hope I, I hope we answered your questions.

Beatriz Abreu - *Goldman Sachs - Analyst*

Perfect. No, that was all very clear. Thank you, Alex.

Operator

One moment for your next question.

The next question comes from the line of Ricardo Buchpiguel.

Ricardo, please go ahead.

Ricardo Buchpiguel - *BTG Pactual - Analyst*

Hi everyone and thank you for the opportunity of making questions. I have just one from my side. Can you please comment if the environment velocity in the infrastructure fund hit the hurdle rate given the deration in the micro condition, there is in any way affect or this particular segment has been much impacted by the interest in Brazil with higher rates and effects. Thank you.

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

Thanks Ricardo. Thanks for participating in our call.

Yeah, I think the there's several things going on in Brazil and some of them there are No, not, not, no, not a lot of good news coming from, from the volatility caused by our presence. Not, not willing to come out straight with his on, on, on the fiscal imbalances, right? And all the effects of that causes to the economy as, as you just mentioned.

But the infrastructure side has, has been going through a mini boom if I would say right? The last auctions that came out be it federal and state auctions, they were all huge successes and several different sectors, several different states and including the Federal Union.

I mentioned some examples of water and sewage, you know, two or three auctions of northeastern states that were not the largest and the most appealing states in Brazil and the auctions all went well and we bid for one, we lost. But so competitive bids with 345 bidders for the, you know, the water and sewage businesses and then we go to toll roads as you know, we bid and we lost for the, the, the last toll road a couple of weeks ago.

But also strategic players and financial and sponsors. So, everybody very disciplined as you saw also the, the in the numbers that were, you know, the winning numbers also more to roads to come. We have schools in the state of Sao Paulo, two options for the construction of schools. I'm naming three sectors here and I can name others. So again, I think the infrastructure is going through a because of the characteristics of infrastructure that in general, you know, that you have a long term contract that these are the ones that we look for to add to our funds. And these long term contracts are adjusted to inflation, and you have financing. And I think in the infrastructure, I think we, we for our business here, Chicago with some the best of all that we can have here. And the number one, we have foreign interest to invest in infrastructure in Brazil. When we are bidding for the toll roads, we have co investments together with us from global financial institution, global sovereign funds together with us. So, we have foreign interest and II I emphasize that because they are very, very big checks willing to invest in infrastructure in the region, mainly Brazil from, from foreign financial players.

Number two for Patria, we have a new fund, no brand new fund. So, we have a lot of money, a lot of equity, a $2 billion fund which is the target puts us in the in an $8 billion bidding contest because we do as you know, leverage 7,082 to 2030 of equity for in each of these deals. Number three, we have the team know an amazing experience and so many things going on here. That is just not our divestments, very successful selling to strategic players, global strategic players.

And we also have demand from local investors right in the takeout. We know some of the funds we listed, some of the funds. We actually also have local players as you saw in the auctions, local strategic players, bidding for toll road and etcetera, local players for water and sewage, etcetera.

So it's a combination of you know, it's of all of these things causes us to be very, very exciting market and we are kind of alone there.

Now, we as a financial sponsor, we have, you know, one large one together with us Brookfield, which is a global player that has a very strong presence in Brazil, but we don't see all the other, you know, big, you know, infrastructure funds play in Brazil and the global infrastructure funds. So, no, we're very well positioned there. No, we're here because we have been, you know, constructing our track record for the last 20 something years that started there with the team Ohio and then the team Andrea Felipe and Robert and Marcel and the team and all my partners there.

So going through a very, very interesting phase on the fundraising side, not only for the fund but co investors. So, we can actually build for larger projects on the management side, you know, the value creation side creating a lot of value there that translates to the divestments.

All of the performance fees of the last several quarters came in from the infrastructure funds. And lastly here, our experience in the sector that actually makes us stand out so exciting moments for infrastructure in Brazil at least. And I think it will continue and it has to do, I think with all of the factors that I just mentioned. So, I hope I answered your question.

Ricardo Buchpiguel - *BTG Pactual - Analyst*

Oh, very clear. Thank you. And just a follow up on one thing you mentioned, you said that incentive fees could be in the 10 level. Is that correct? You just want to confirm if that makes sense for, for Q4.

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

Yes, the incentive fees in the fourth quarter, around $10million, right?

Ricardo Buchpiguel - *BTG Pactual - Analyst*

Thank you. Thank you very much.

Operator

One moment for our next question.

The next question comes from the line of Guilherme Grespan of JP Morgan. Guilherme, please go ahead.

Guilherme Grespan - *J.P. Morgan - Analyst*

Good morning Alexan and team. Thank you for the call and opening it up for questions. Just two on my side. The first one is actually pretty quick. I think I mentioned among the incentive fees that part of it comes from real estate. I just want to confirm which product inside real estate generated performance fees just to be sure we have it. Here, I think the, the ballpark, the, the bulk of it is going to come from, from private credit, right? But just to confirm the real estate products, which one generates performance. And the second one, it's more on the product. Strategy, Alex, you talked a lot about infrastructure and GPMS.

But I, I wanted to get your review on private credit. You touched a little bit during the call but has been a booming. I think industry in Brazil and globally. I think most of your strategy today, it's still Chilean legacy, right? Monita Business. I just want to get your, your thoughts if you feel that there is an opportunity in Brazil or in the rest of Latin to develop the business, I think was part of the deal as well. But just want to, to get the kind of milestones on what you're thinking about this strategy in Brazil and the business outside Chile. Thank you.

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

No, great. I'll ask Anna to answer the first question and then I'll, I'll ask, answer your second question on, on the credit business, please, Anna.

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

Hi.

Yes, you're right. I, you know what I said is incentive. It comes mostly from the strategy of credit, public equities and the state. However, most of our incentives are generated by the credit is if I, you know, look into the size is really like 95%-97% is the credit and there is just a small portion coming from your state. We are actually coming from the some of the funds that we acquired from credit suite.

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

Yes. And going to your second question, I think not only credit but also real estate, but are doing extremely well this year. Let me, let me turn to credit and then I'll touch on the real estate side for a second as I finish my answer on the credit side again, I, I would, I couldn't be happier. We do post the returns of the funds, and you can see in our presentation here as I as I mentioned, in any shape or form that you see, it will be the benchmarks. And on the private credit side, William, we have a 15% of our public funds are private credit transactions.

It's a pocket that we have and that and given our size. So, for the $6.5 billion that we currently manage, we have around $750 million is pure private credit, right? And then the main strategy is no $566.5 billion minus 750. So, you have a number of $5 billion, 750, right? Out of the, the 5,750 15% of that, which is now close to $800 million is private credit, right? Which is the pocket of private credit within the public fund. So if you look at how much we do manage in private pay private credit is a substantial number and probably making us one of the larger private credit, alternative asset managers in the region because of the sum that I just did that we're managing over $1.5 billion of private credit.

Now, pure private credit around $750 million there. I have infrastructure, private credit. I have the Fiji that, you know, in Brazil fia and all of these other products that are in the Fiji format. And then I have a last time dollar denominated private credit funds, and I have the 15% pocket out of the $5.5 billion public credit strategy.

And that part of the market is doing extremely well. You know, with all kinds of different transactions, it is a moment that companies are kind of stressed because of the high interest rates mainly in Brazil. So we're managing to do very interesting transactions there and, and, and, and getting extremely good returns for our private credit, which is actually helping push the, the, the overall return of our public credit funds and of course, very good returns on our pure 100% private credit funds that I mentioned to you. And as I, as I look into the, the near the near future, mainly in Brazil because the yield curve show us that, you know, interest rates in Brazil will continue to be higher than, than I expected whatever 12 months ago in 2025. So these opportunities will continue as companies need to refinance themselves, etc.

We are providing that private credit solution for them in other parts of Latin America, this is also the case, but this, you know, youth curves are now showing a negative tendency which is good mainly in, in, in Chile and Colombia less so in Mexico. But as you know, Brazil is not there yet, no inflation actually is picking up in Brazil slightly picking up, but it is picking up. So, the, this is on the, on the credit side and, and we want to raise more no private credit instruments and funds, and I think we are launching other products as we speak. It's, it's a, it's an area of the market $1.5 billion and now multiply by five, multiplied by six.

It's pretty, it's pretty sizable for the Brazilian market. No. But it comes and then even with the, the Chilean legacy that you mentioned, more of around 40% to 50% of the assets under the Chilean Fund are secure, Brazilian issued security. No security is issued by Brazilian companies.

So it is a, a fund managed by our Chilean partners, but half of the fund is composed of security issues by Brazilian firms because it's natural given the size of Brazil in the whole of Latin America. And then of course, Mexico coming second and Chile and Colombia on, on the real estate side, we know if you look what happened over the last 24 months, I know we know we, we doubled when we joined forces with VBI, I was managing %5 billion REI that's mid 2022 mid 2024. VBI was managing $10 billion, right? So, from 5 to 10 in addition to the credit Swiss acquisition of around $12 billion Rayis, so making us today plus everything that we already had. Now the largest independent manager, top three considering the real estate managers linked to commercial financial institutions.

So again, extremely excited, but on, on what did we see there in the first half of 2024 we raised a lot what we call the brick and mortar kind of funds, funds that invest in the asset, the real estate asset itself, buildings construction, logistics, residential, blah, blah, blah. In the second half of 2024 we're we our focus and what's the market is asking also is for the credit related real estate funds. The Greece now the cris and we've been very successful in raising those funds, you know.

So we, we have a very large market share in most of the segments of the real estate investment trust market in Brazil. 40% market share of the logistics segments of the corporate segments of the retail segments and still now close to 12%-15% share of the credit segments. And there we are now making inlays and raising a lot of money in the second half because as interest rates yield curve in Brazil turns to the worst in the second half. Now, our investors now are more inclined to invest in this kind of funds and securities than brick and mortar.

So first half of 2024 more brick and mortar. Second half of 2024 more credit related and again, the beauty of having a diversified platform of not only credit funds but real estate funds and GP MS and private and venture, growth, and infrastructure, core, infrastructure, core plus infrastructure development. So today, we have 38 strategies over 100 products exposed to know the five main countries in Latam.

Besides Argentina, it gives us this and Europe gives us this ability to fundraise in different parts of the world fundraise for all these different 38 strategies and, and, and not only but deliver but beat the guidance that we have for $5 billion organic fundraising, FRE etc.

I have more tools in my hand, more levers operational levers to be able to hit the guidance, deliver the guidance with all of these different products and countries that I that we fund raise today.

Hope I answered your question.

Guilherme Grespan - *J.P. Morgan - Analyst*

That's clear, Alex Thank you.

Operator

One moment for your last question.

The next question comes from the line of William Beringer of [ITA BB A], William. Please go ahead.

Unidentified participant - - *Analyst*

Thank you Alex and for your time. So, my question here is also on the topic of product expansion, but here more broadly. So, I would like to understand if you still think there is any product or region that is not already included in your portfolio, but you would like to expand there in a medium term. So, like I understand you're already in the process of digesting recent acquisitions. But if there's any appetite for the next year, maybe two years to go to another region, other products and complementing it if in order to expand on those fronts, if you see it necessarily through M&A or in organic, in organic movements, or if you believe organic movements would suffice here. Thank you.

Yeah.

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

No, thank you. Thanks for the question here, William. I think we are, we definitely continue to see though the, you know, the strategy that we actually set up prior to the IPO that we delivered during the IPO road show, which is product expansion, geographic expansion within Latam.

And for some strategies like GPMS, it has to be outside of the time the P MS market within is very narrow. On the product side, it's more on the fundraising side. It's, it's good for no local investors, investing in global product.

So we start with that strategy, we continue there. We are in year number 34.

My view that it's no, it's a 10 year strategy for me to see the complete menu of geographies and products that I like to attain. So, 30%-40% of the way you will listen from us in this December '9 in New York and hopefully you can participate as someone from your team, the next three-year performance and guidance. And you will see that we will expand the number of strategies to this 38.

At the time of the, of the IPO, we have seven strategies. They have 38 and we continue to expand strategies specifically where no, I think there's a lot to do within that time. Mainly in Colombia with in, in, in, in Brazil and in Chile, we have no complementary products, frontier products. Now that will come through organic, launching of products. As I mentioned, we launch some Fiji some F Agros in Chile. We launch some local products there, but they are complementing the menu of products in Colombia after we signed the JV with Bank Colombia. Late last year in October, we are launching several products there.

We're launching a, a local credit fund in Colombia. We're launching a private active fund in Colombia. We're launching an infrastructure fund in Colombia. We're launching a real state bad debt credit fund in Colombia and using the Colombian bank Colombia channel all in Colombian pesos to Colombians. As you know, some most of the institutional clients in Colombia, they have restrictions to invest outside of Colombia. They so they have to invest in Colombia like the Brazilian institution investors in pension funds. In addition, these investors, they want Colombian pesos exposure. So, the assets and liabilities are exposed to the same currency, and this is a huge competitive advantage of ours.

Now, we are the global size today now managing $44 billion but we are very local in nature of implementation. So, we have products that are designed to the local market to the local investors in R is Brazil and Ria is in Chilean Pesos now in Colombian Pesos. And the, that's exactly what our clients are looking for. The global alternative asset manager, the, you know, the Blacks and Carlisle, although they're not going to launch local products in the country that I had just mentioned in local currencies, it's not their business, it's not their interest and the local guys are too small compared to us.

They don't have our scale, our distribution, our fees to be able to invest in marketing and distribution and go to market strategies. So I think we're very well positioned and association with Bank Colombia has started with a very, very good right foot with our real estate investment trust and all these other products that we are launching and we are using the Bank Colombia networks to launch products in Panama to launch products in Guatemala in Costa Rica, which Bank Colombia has sizable operations in these other countries.

So becoming a true local player also in Central America through this partnership, joint venture with Bank Colombia, which is the main bank, not only in Colombia but in the countries that I mentioned to you, we're not in Mexico. I think Mexico, though it's something that we have to analyse with, with a lot of care is the second largest economy in the region. I see, I see real estate in Mexico is still a good place. You have the list of the real estate investment trust in Mexico, the FREs like our fees now in Brazil.

There are no size market. Actually, the Mexican FRE market is a little bigger than the Brazil real estate investment trust market. And they, we, we real estate in Mexico because of the whole near shoring friendly shoring, whatever is in the northeast of Mexico is really booming. But we have to look with care. I think what's going to happen today now with the US Presidential elections. And also, we wanted to know wait a couple of months after the new President Claudia took over in Mexico to see her, you know, direction, the political direction in some of some of the aspects that might affect the real estate industry. Until now, actually, specifically for the real estate industry, nothing is really hampering that moment, that momentum that I just mentioned.

I think we have two strategies here William that actually can expand outside of that time. One is GP MS, we're already in Europe. That our European operations is two thirds Europe, third US. If you look at it should be the opposite, right? It should be two thirds us and third Europe. So, we're looking to ways to expand in the US, and it could be through an acquisition through acquisitions.

And also our infrastructure business, I think is where, as I mentioned, we're top notch. I think we can actually expand to other to other countries outside of Latin America. We have the experience of doing development infrastructure and I think we should expand that could come also through acquisitions. So, we're, we're not going to do any acquisitions over the next four quarters.

Okay. We, and why is this hiatus now this hiatus is for us to integrate the businesses for us to show exactly our capability of buying things and, and, and then integrating and pushing margins up to close to close to 60. And I have to gain that credibility with you and other fact investors. But we have one successful case, which was the MDA which I just explained. Now, we have this business that we acquired this year. Hopefully even the answer that I gave to Beatrice, you know, we're going to see margins heading up in 2025 to the, you know, high FIF so I'm going to gain credibility, hopefully, gain credibility that we can do this. We can buy things we can integrate. We don't put any stress to our balance sheet. We have lower than one times FRELTM of debt net debt to LTMFRE. So, it's pretty low.

So I think yes, but you know, growing into locally in Colombia organically through the bank, Colombia JV, looking into Mexico with a lot of care, real state will be the first one and then heading out to know GP MS Europe, GPMS last time. So it is, but this is all in time now for 2025 specifically, it's all organic. Okay? We don't even have an mou sign. Okay. So, between an mou and signing something you need no four quarters. And we're going to have, you know, we want to use 2025 again to show everything that I said here. No, we need to have some water going down the, the, the, the river here and now we're integrating the businesses, we're raising margins, you guys get comfortable with our confidence of doing things and then we take another step date 25-26 Onward. Okay.

I hope I answered your question.

Unidentified participant - - *Analyst*

Yeah, you did. It was very, very. Broad. Thank you.

Operator

Very clear.

Thank you. This concludes the question-and-answer session. I would now like to turn it back over to the CEO and founder. Please go ahead.

Alexandre Saigh - *Patria Investments Ltd - Chief Executive Officer, Director*

All right. Thank you very much for very, very thorough earnings call. I really appreciate your questions and the, the more interactive and the better. Thank you. Thanks again. I know that this is a busy day for all of us here with the US elections.

Reiterating then our guidance of $170 million of FRE for this year, the $5 billion of organic fundraising. And next year $225 million of FRE for next year. We're going to have our day 9' December and we're preparing, great, content for you, for you and team. So, I hope that you guys can participate.

It's going to be in New York and the NASDAQ venue, the NASDAQ building, the same place that actually we did our last one, late 2022 whoever participated. And I know hopefully we're going to see each other in person in, in a month time today, you know, is the 5' November. So, thank you very much again, all the best as, and see you soon. Thank you very much. Bye.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now, disconnect.
