

## ISSUER COMMENT

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# Santander Brasil Gestao de Recursos Ltda

## Manager Quality Analysis

### Assessment rationale

**Assessment: MQ1 (Excellent)**

Moody's assessment of [Santander Brasil Gestão de Recursos Ltda \(Santander Gestão de Recursos\)](#) is MQ1 (Excellent). Santander Gestão de Recursos is a Brazilian asset manager and subsidiary of [SAM Investment Holdings Limited \(SAM\)](#) (unrated). As of 30 September 2020, assets under management totaled BRL280 billion (approximately US\$50.6 billion). The MQ1 assessment reflects Moody's view of the asset manager's excellent management characteristics.

The MQ1 assessment is primarily based on: (i) the disciplined investment decision-making process, (ii) enterprise-wide culture of risk management and control, (iii) solid risk-adjusted performance of its funds and (iv) the support and oversight of its parent, SAM, as well as the exclusive distribution agreement with [Banco Santander Brasil](#) (Ba1 stable, ba2). The challenges ahead for Santander Gestão de Recursos are: (i) maintaining and strengthening market position in an increasingly competitive landscape and (ii) improving its multimarket and equity funds' risk-adjusted investment performance.

### Recent developments

From January to September 2020, Santander Asset Management presented net outflows of BRL5.0 billion. Even though the company reported inflows in multimarket and previdência<sup>1</sup> funds, fixed income funds registered net outflows. The shift is aligned with increased appetite for higher yielding yet riskier asset classes within a low interest rates context. In recent years, Santander Gestão de Recursos started to manage Infrastructure and Real Estate Funds, in addition to reformulating and relaunching their ESG Fund (Ethical Actions).

The asset manager historically has been able to grow its assets under management and to maintain its market share and market position as one of the leading players in the Brazilian industry, supported by the strong franchise of Banco Santander and the bank's broad distribution channels. Santander Gestão de Recursos continues to present solid risk-adjusted performance in most categories of funds.

## Asset manager overview

Exhibit 1

Asset Management Entity	
Name	Santander Brasil Gestão de Recursos Ltda.
Commencement of Operations	Established in 1997. Changed the ownership structure in 2013/2014
Moody's Assessment	MQ1
Assets Under Management (Sep/2020)	BRL278 Billion (US\$50.6 Billion) 5th largest Manager in the country with 5.5% market share
Headcount	106 (37 directly involved in investment management activities)

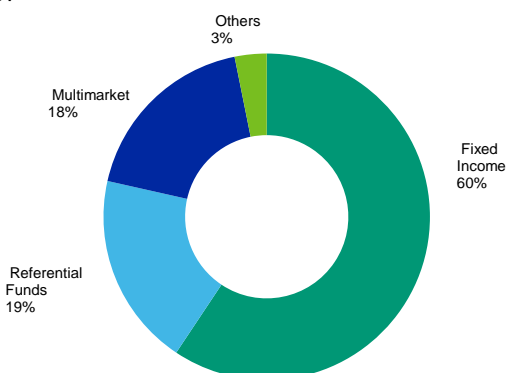
Source: Santander Gestão de Recursos and Moody's Investors Service

Headquartered in São Paulo, Brazil, Santander Gestão de Recursos is the Brazilian subsidiary of Santander Asset Management Investment Holdings Limited (SAM) (unrated). The asset manager in Brazil maintains an exclusive distribution agreement with Banco Santander (Brasil), the 5th largest domestic bank, and benefits from its large distribution network, with more than 26.3 million active customers and 2,328 brick and mortar branches.

The company was established in 1997. The Brazilian subsidiary, which falls under the umbrella of SAM, was formally established in December 2013, with the operations being transferred to Santander Brasil Gestão de Recursos from Santander Brasil Asset Management.

Exhibit 2

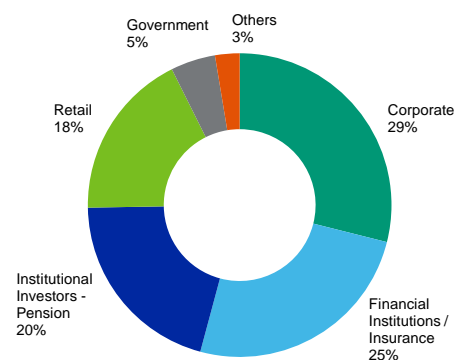
### Assets under management - September 2020 By fund type



Source: Santander Gestão de Recursos

Exhibit 3

### Assets under management - September 2020 By investor type



Source: Santander Gestão de Recursos

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## Factor 1 – Investment management activities

### Investment methodologies:

We consider Santander Gestão de Recursos' investment identification process as well as its capacity to match a fund's objective with an investment strategy as positive factors when evaluating the company's investment decision process. Santander Gestão de Recursos' investment management process follows a disciplined process based on policies and guidelines set by multiple investment committees. For the fixed income and multimarket funds, Santander Gestão de Recursos uses a top-down approach for the construction of its portfolios. A central economic scenario is defined in the macroeconomic committee and supports strategic and tactical investment decisions. For its equity funds, the company uses a combination of top-down and bottom-up approaches, focusing on fundamental research. The team creates a core portfolio with multiple strategies that is shared by all equity portfolios, but in different proportions. Risk management is an integral part of company's investment management activities. The risk management team consistently monitors the set guidelines and exposure limits, considering value-at-risk (VaR), stress tests, fat tails, credit risk, quantitative analyzes and liquidity risk of its funds.

### Investment infrastructure:

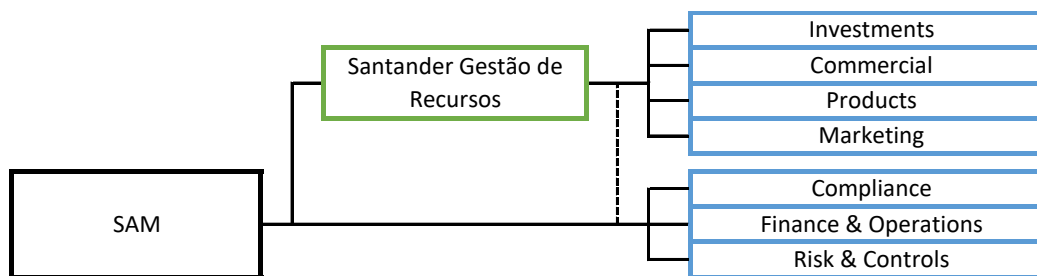
Santander Gestão de Recursos has an excellent investment infrastructure, with real time portfolio management, risk controls and compliance systems. Santander Gestão de Recursos has continuously invested in upgrading the technological infrastructure to expand its operations and serve its clientele. We consider that the company has a very low exposure to business interruption risk.

### Organizational structure:

Santander Gestão de Recursos' asset management area is comprised by 106 employees, 37 of which are directly involved in investment management activities (as of September 2020). The company has a strong organization structure, with independent functions, and an experienced and qualified team of professionals.

Exhibit 4

#### Organizational Structure



Source: Santander Gestão de Recursos

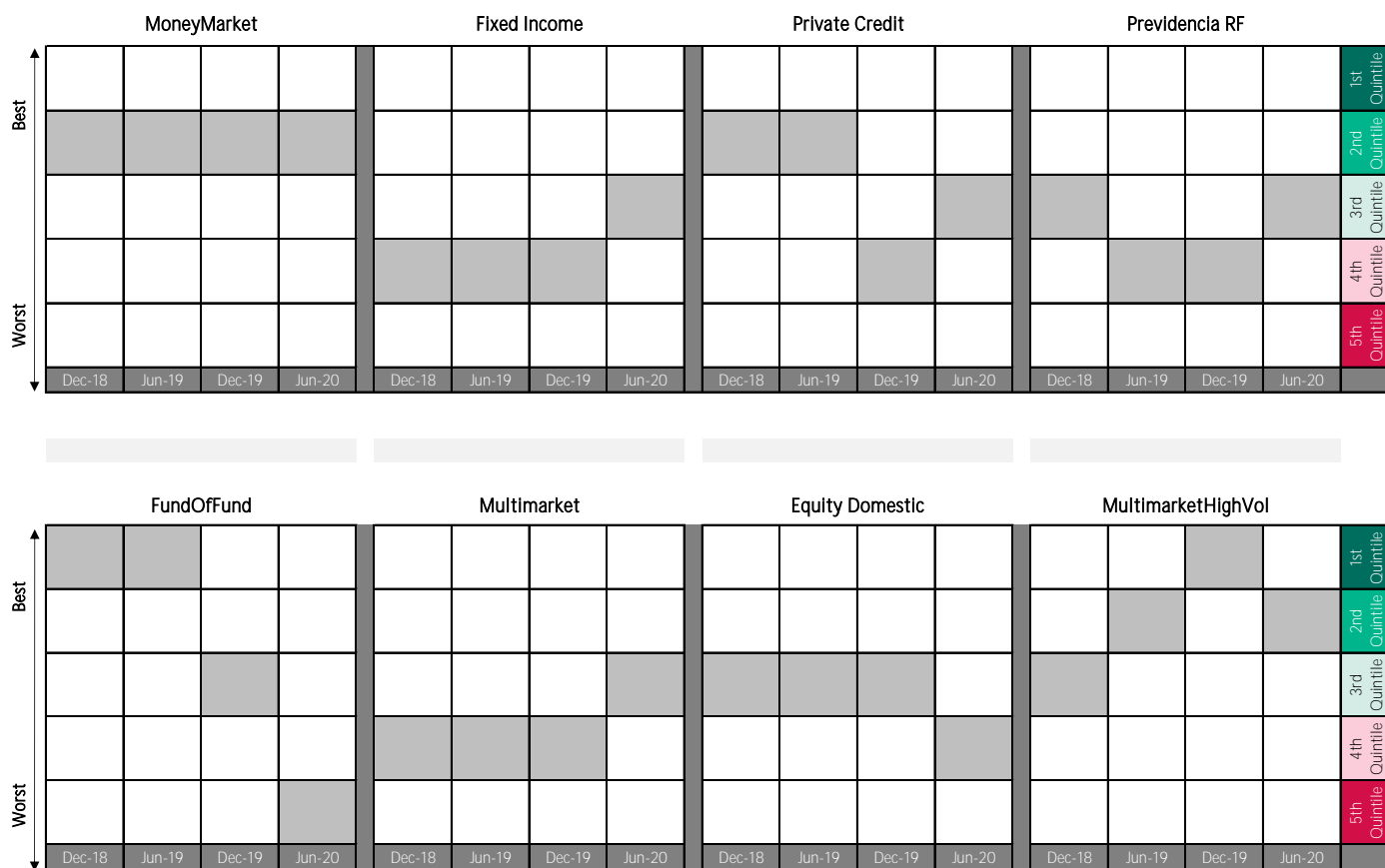
## Factor 2 – Investment results

### Investment skill and risk (\*):

Santander Gestão de Recursos' Investment Skill and Risk scores are solid and funds have shown good risk-adjusted performance relative to local benchmarks. Money Market funds have consistently ranked in the 2nd quintile. Fixed Income funds improved from last semester 2019, and achieved 3rd quintile in June 2020. Private Credit funds are current ranked in the third quintile, from 4th last semester. Santander Gestão de Recursos' Previdência funds, generally focused on fixed income strategies, ranked in the 3rd quintile in 2020.

Overall, Moody's views the company's investment performance to be solid and funds have generally outperformed their respective benchmarks, although they have not consistently outperformed local peers. Moody's expects Santander Gestão de Recursos' investment performance relative to local peers to improve going forward, given its excellent investment management capabilities.

Exhibit 5



Moody's notes that the evaluation takes into consideration funds that may charge different fees, have different strategies and benchmarks, or that may target distinct investor types. As a result, Moody's acknowledges that a fund that was narrowed down to a segment may not direct compete with another within the same segment. Based on a combination of the following metrics: Information Ratio, Merton Skill, Alpha, Sharpe Ratio, beta and Maximum Drawdown. Further details on Appendix 1  
 Source: Moody's Investors Service

## Factor 3 – Financial profile

### Revenue and profitability levels and stability:

Santander Gestão de Recursos has consistently reported solid financial metrics, and its operating and profit margins continue to be very strong. The company has reported a relatively low level of income volatility, which results in stable revenues and profits, notwithstanding a marginal declining trend in earnings growth in recent years.

### Corporate organization:

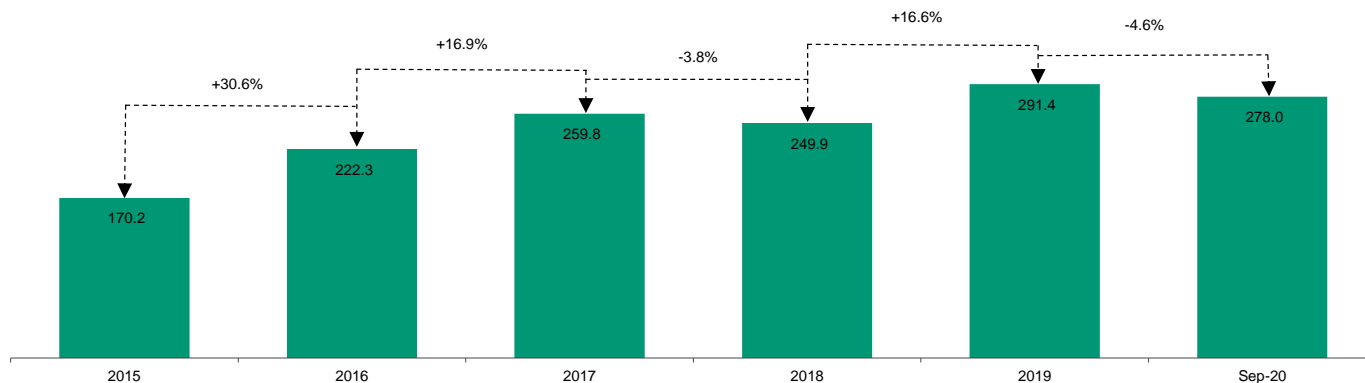
Santander Gestão de Recursos benefits from the full financial support provided by the parent company, Santander Asset Management Investment Holdings. The parent supports the company's operations, investing in technological infrastructure and hiring new professionals to expand the asset management footprint in Brazil. Santander Gestão de Recursos also benefits from Banco Santander Brasil's broad distribution channels and client-base. We note that the exclusive distribution agreement with the Brazilian bank is a key factor in support of the assessment.

### Assets under management:

Santander Gestão de Recursos has a well-diversified product offering, with fixed income, multimarket and previdência funds being the main products. The company's client base is also well-diversified, with the main investors being pension funds, corporates, retail and previdência. In addition, Santander Gestão de Recursos has experienced AUM growth over the years, maintaining a leading position in the Brazilian market.

Exhibit 6

#### Assets under management - Santander Gestão de Recursos BRL Billion



Source: Santander Gestão de Recursos, Investidor Institucional

## Factor 4 – Client servicing

### Retention and replacement of clientele:

Santander Gestão de Recursos has a relatively strong client retention, with low rates of client turnover, despite net outflows in 2012 and 2018 which negatively impacted these metrics. The company's replacement rate, measured by the percentage of assets lost that are being replaced by new subscriptions from investors, is relatively solid.

### Other considerations

#### What could change the assessment – down

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

## Appendix: Investment performance measurement

### 1. Fund sampling

The SI-ANBID database includes a large number of active mutual funds (above 20,000), and we selected a sample funds that met some pre-determined criteria for use in our historical performance analysis:

1. Fund Segments: narrowing the sample down to the most popular mutual fund segments among investors, we selected the following segments: Equity, Fixed Income, Multimarket ("Multimercado") and Pension.
2. Type of funds: master funds and exclusive funds are not considered in our analysis
3. Length of Existence: we only considered mutual funds that have at least three years of history.
4. Fund Size: only funds with a minimum of BRL25 million in total assets as of our last assessment date were included in the sample.

After filtering, we came up with a sample of 4,179 funds.

### 2. Performance measurement

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

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

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

#### Basic measures used to evaluate investment results, risk, and manager skill:

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

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

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

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

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

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

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

## Endnotes

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

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