

SOCOPA – Sociedade Corretora Paulista S.A.

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Rationale

The 'AMP-3' (Good) classification on **SOCOPA – Sociedade Corretora Paulista S.A.** (SOCOPA) reflects the asset manager's robust operations and controls, and sound fiduciary principles. Our analysis also takes into account the fact that the company operates as a subsidiary of **Banco Paulista S.A.** (Banco Paulista; brAA-/Negative/brA-1+) and benefits from technical support from various areas of the bank, including risk management, compliance, back office, and legal department. In our view, the company's still modest scale, with product and customer concentration, is a downside in our analysis. Given the recent updates in the company's asset management department, we believe SOCOPA is still undergoing a business development and expansion process, which could benefit product diversification in the future.

SOCOPA is responsible for Banco Paulista's brokerage, management, custody, and administration of investment funds. The company is among the leaders in the administration and custody of receivables-backed investment funds (FIDC, in the Portuguese acronym) in Brazil, with assets under administration worth approximately R\$ 17 billion, corresponding to a market share of 16% as of August 2018 of this type of fund. We estimate SOCOPA to account for around 30% of Banco Paulista's revenues, and we expect the company to continue playing a key role in the strategy of the group, which benefits from the services provided by the asset manager to maintain a widely diversified product range.

SOCOPA's asset management department, whose activities are properly segregated from the administration and custody departments, is aimed at leveraging the asset manager's and the bank's relationship with companies, as well as with institutional and private investors, and developing and managing funds tailored to the customers' demands and risk profile. The company's asset management activities are focused on structured funds, drawing on the group's experience as a market leader in the administration and custody of such assets. In August 2018, SOCOPA's assets under management

totaled approximately R\$ 2.0 billion, of which 53% corresponded to structured funds and 39%, to hedge funds, the latter concentrated on a lower number of funds. SOCOPA's portfolio is also invested in fixed income funds, which account for roughly 8% of its assets under management. We continue to view its asset management business as concentrated and, consequently, reliant on a relatively low number of customers. Additionally, the concentration on structured funds could bring other operational risks to the asset management business, given the complex nature of these products. However, the company is implementing initiatives to expand its product portfolio and diversify its client base, which mitigates part of its concentration risks. We also believe SOCOPA has invested in its operational structure to support its expansion strategy based on a conservative approach.

In our view, SOCOPA's management is developing its own investment culture. Most of the company's funds under management have limited flexibility in terms of investment decision, as is the case of private equity funds and FIDCs. Still, we believe SOCOPA has an adequate structure to maintain and expand its active management product range. The investment decisions regarding these products are taken based on a clearly defined committee structure. The management committees meet regularly to evaluate the investment strategies and asset performance, and properly formalize the conclusions. Moreover, these committees include members of the legal and risk departments, who have veto rights, with a view to ensuring integrity in the process and independence of the asset management area in relation to the other departments of the group. However, given the short track record of the recently updated asset management department, as well as its portfolio of products with a limited range of flexible investment options, it is still early to assess the value added to SOCOPA's management strategies.

The group's risk management area has been recently reorganized to ensure proper segregation of the risks to which the company is subject and allocate them to specific management areas. In our view, this restructuring reinforces the internal risk controls of the group as a whole, including its asset management area. In addition to the restructuring, the risk management area continues to receive investments and is becoming increasingly robust. As a result, SOCOPA has maintained a well-structured risk management process, aligned with sound principles and supported by adequately defined risk assessment tools.

In our opinion, the company has clear operating processes focused on fiduciary management. Additionally, the group's solid financial results allow for continued investments in the improvement of systems, processes, and resources, which enables the company to keep its operations aligned with best practices adopted by other asset managers. We also view as an upside the group's robust IT infrastructure, which enables operations to resume quickly in the event of a disruption. Lastly, the group's independent compliance department is in charge of ensuring integrity and transparency throughout the asset management process, in accordance with internal and regulatory rules, including fiduciary principles.

As a business unit that is relevant to the Paulista group, we believe SOCOPA faces the challenge of consolidating its position in the management of structured funds amid a highly competitive environment and a widely challenging macroeconomic scenario in Brazil. In our opinion, SOCOPA presents an adequate operational structure and resources to support its growth and diversification expectations. The company also benefits from the group's customer base and structure to leverage different strategies, including fixed income and other active management products. However, a higher business volume is fundamental for the company to achieve a more relevant position and maintain its stable operational flow in view of challenges inherent in asset management activities in Brazil.

Notes:

The 'AMP-3' (Good) classification assigned by S&P Global Ratings to SOCOPA – Sociedade Corretora Paulista S.A. reflects our opinion on the 'Good' asset management practices in the AMP scale that ranges from the highest category 'AMP-1' (Very Strong) to the lowest 'AMP-5' (Weak).

S&P Global Ratings' AMP classification is a current opinion of the overall quality of an asset management company, including its administrative aspects and operational procedures. The classification is based on an analysis of an asset manager's systems and controls to ensure its customers' interests are met. S&P Global Ratings' assessment of these firms includes a quality review of their performance, operating procedures and risk management systems, as well as their business profile, product mix and financial strength. Our analysis does not incorporate sovereign risk elements. The classification also evaluates the asset managers' systems and controls in relation to those adopted by other asset management firms in Brazil. S&P Global Ratings' classification of Brazilian asset managers' practices does not represent an audit of compliance with the company's own procedures or an opinion on compliance with laws and regulations. An AMP classification does not constitute a recommendation to use the services of any asset manager.

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