



LATAM VENTURE CAPITAL  
FUNDRAISING IN 2023:  
EMBRACING NEW DOMICILES  
AND INSPIRING NEW INVESTORS



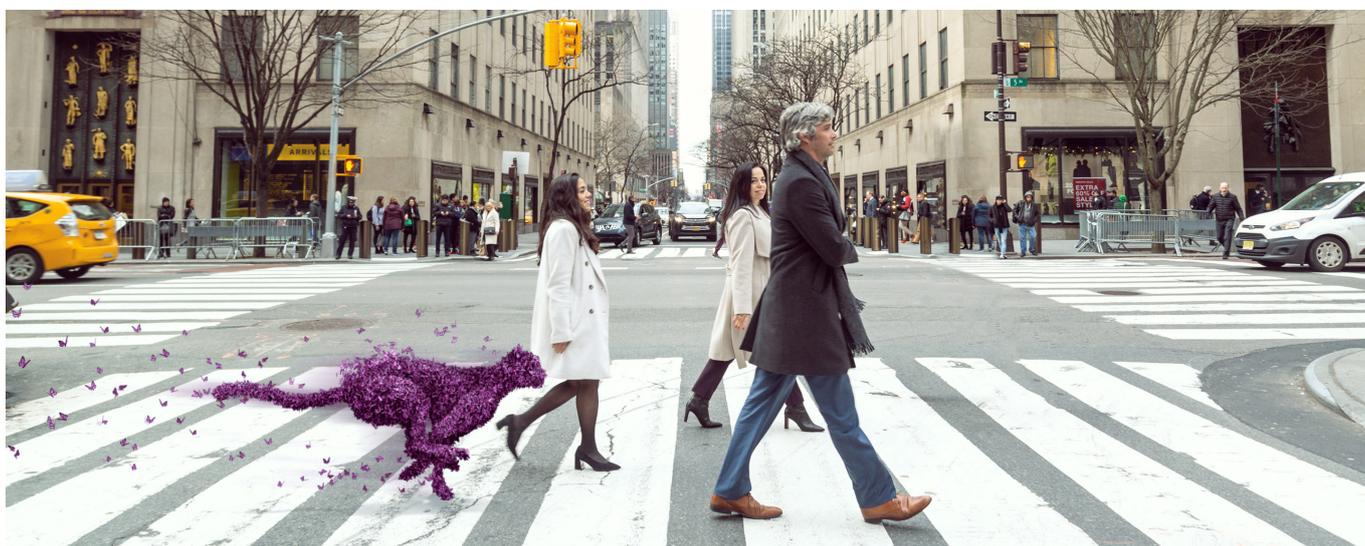
## LATAM VENTURE CAPITAL FUNDRAISING IN 2023: EMBRACING NEW DOMICILES AND INSPIRING NEW INVESTORS

Private capital strategies have enjoyed remarkable fundraising success over the last few years, a feat fueled primarily by their strong performance.

According to Preqin, total assets controlled by private capital managers are expected to surpass \$18.3 trillion by 2027, up from \$9.3 trillion in 2021<sup>1</sup>. However, it is venture capital that is poised to become one of the fastest-growing strategy subsets within private capital, with assets projected to rise from \$1.46 trillion in 2021 to \$4.17 trillion by 2027<sup>2</sup>.

Venture capital firms in Latin American markets (LATAM) are no exception. As LATAM venture capital managers have become increasingly ambitious, they are starting to scope out investment and fundraising opportunities overseas, often in the US. To flourish in markets such as the US, LATAM managers will need to make substantial changes to their operating models, including where they domicile their funds and their choice of service providers such as attorneys and fund administrators.

So what should LATAM venture capital firms look for when selecting their fund domicile and fund administrator?



### VENTURE CAPITAL IN LATIN AMERICA – ROBUST AND RESILIENT

Although alternative asset managers in LATAM account for less than 1% of global AUM<sup>3</sup>, the region’s private capital industry is relatively buoyant. While private equity is the dominant alternative asset class in LATAM – managing around \$25.5 billion, 44% of the region’s AUM - venture capital is displaying healthy growth too.

Preqin noted that assets managed by LATAM venture capital firms hit \$11.3 billion in 2022 (as of June 30), a substantive jump from 2020 when AUM totalled \$7.5 billion<sup>4</sup>. Elsewhere, the Association for Private Capital Investment in Latin America (LAVCA), a regional industry body, reported that LATAM venture capital had its second-strongest year on record in 2022, with \$7.8 billion being deployed across 1,114 deals<sup>5</sup>.

### VC INVESTMENT IN LATIN AMERICA, 2015 - 2022



1 Preqin – October 5, 2022 – Global private capital AUM to double to \$18.3 trillion by 2027, Preqin forecasts  
 2 Preqin – October 5, 2022 – Global private capital AUM to double to \$18.3 trillion by 2027, Preqin forecasts  
 3 Preqin – August 18, 2022 – Tech market could provide new opportunity in Latin America – Preqin reports  
 4 Preqin data  
 5 LAVCA – LAVCA mid-year 2022 industry data and analysis



## NOTABLE VC TRANSACTIONS IN LATIN AMERICA, 2022

INVESTOR(S)	COMPANY	HQ	TECH VERTICAL	STAGE	VALUE (USDm)	WHY IT MATTERS
> BBVA	Neon	Brazil	Fintech	Late-Stage	300	Largest CVC round in Latin America
> International Holding Company (IHC)	Lulo Bank	Colombia	Fintech	Late-Stage	200	IHC's first VC investment in Latin America
> Bain Capital, Byers Capital, Conservation International Ventures, KASZEK, USV	Mombank	Brazil	Cleantech	Early-Stage	100	Largest cleantech round in Latin America
> Andreessen Horowitz, Wollef, Kayyak, chimera, TriplePoint Capital	Foodology	Colombia	Food Delivery & Restaurant Tech	Early-Stage + Venture Debt	50	Women-led
> Anthos Capital, Ethos Capital, JAM Fund, Soma Capital, WIND Ventures, Y Combinator	Yummy	Venezuela	Super Apps	Early-Stage	47	Largest round in Venezuela
> Ballast Capital, Carao Ventures, Invermaster, MedTex Ventures	Levita Magnetics	Chile	Biotech & Diagnostics	Late-Stage	26	Largest biotech round in Latin America
> Entrée Capital, Founder Collective, Janeiro Energy, OIF Ventures, Salesforce Ventures	Pagaleve	Brazil	Fintech	Early-Stage	26	Salesforce Ventures' first known investment in Brazil
> BuenTrip Ventures, Class 5 Global, FJ Labs, Goldtruck Holdings, iThink VC, Newtopia VC, Precursor Ventures	Koban	Bolivia	Fintech	Seed	2.3	Largest round in Bolivia
> Chan Zuckerberg Initiative, Bradesco, DNA Capital, Scale-up Ventures	Beep Saúde	Brazil	Healthtech	Late-Stage	N/A	Chan Zuckerberg Initiative's first known investment in Latin America

Source: LAVCA. Data as of 31 December 2022

In terms of investments, high-caliber start-up businesses are abundant across LATAM, especially in the technology sector. The Financial Times reported that 39% of all venture capital flows in LATAM went into fintechs, followed by e-commerce (25%), and property technology, otherwise known as "prop tech" (9%)<sup>6</sup>. High-profile transactions included the latest financing round of Brazil's Nubank, a digital bank, which received \$1.15 billion in extended venture capital funding in 2021 before it finally floated on the New York Stock Exchange with a market capitalization of \$40 billion<sup>7</sup>.

So why are venture capital managers in LATAM proving so resilient in this challenging economic environment? "Valuations in LATAM – like the rest of the world – have gone down. What differentiates LATAM from other markets is that although valuations of companies increased during the pandemic, they never reached the stratospheric levels of what we saw in Silicon Valley and other regions. In LATAM, the valuations started low and were undervalued relative to their peers in developed markets, hence why we have not seen a sharp decrease in valuations like in other countries," highlighted Lizbeth Flores, Partner at PAG.law in Miami.

<sup>6</sup> Financial Times – January 24, 2022 – Latin America VC investments triple record to pass \$15bn in 2021

<sup>7</sup> Financial Times – January 24, 2022 – Latin America VC investments triple record to pass \$15bn in 2021



## VC INVESTMENT IN LATIN AMERICA BY COUNTRY, 2019 - 2022

COUNTRY	2019		2020		2021		2022		YoY GROWTH (2021 - 2022)	
	USDm	NO. OF DEALS	USDm	NO. OF DEALS	USDm	NO. OF DEALS	USDm	NO. OF DEALS	USDm	NO. OF DEALS
> Brazil	2,550	226	2,436	298	7,703	435	3,082	463	-60%	6%
> Mexico	738	97	844	102	3,586	172	1,768	236	-51%	37%
> Colombia	1,135	38	512	41	1,559	81	1,191	126	-24%	56%
> Argentina	294	27	214	27	1,305	82	360	92	-72%	12%
> Chile	78	45	139	35	869	86	536	104	-38%	21%
> Ecuador	1	3	12	2	91	13	112	15		23%
> Peru	1	4	21	5	115	18	44	29	-62%	15%
> Rest of LATAM	173	14	43	14	671	28	731	49		61%
> TOTAL	4,970	454	4,222	524	15,898	915	7,822	1,114	-51%	9%
										75%
										22%

■ Record year

Source: LAVCA. Data as of 31 December 2022

## GOING GLOBAL

Having won mandates from regional institutional investors, Marcel Imery, Director, Business Development, Private Client Services, at JTC, said that “international allocators - including those located in the US, Europe, and Asia – are starting to express an interest in LATAM venture capital. However, these global investors must adhere to stringent transparency and risk management criteria, which can sometimes make it harder for them to invest in LATAM venture capital (VC) funds, owing to the regulatory and political risks in certain markets.”

In order to expand their pool of potential investors and mitigate their risk concerns, LATAM VC managers are deciding to diversify geographically and diversify their portfolios by setting up non/domestic VC funds and investing in startups from multiple jurisdictions. This trend is causing the expansion of their footprint and the broadening of their investment thesis.

“LATAM VC firms are widening their horizons,” said Imery. “Previously, local venture capital firms would invest overwhelmingly in domestic start-up entrepreneurs, but they are now more jurisdiction-agnostic in terms of where they put their money. Not only are they investing in more LATAM markets, but many are going international, setting up new funds in foreign jurisdictions, mostly in the US, and allocating capital cross-border in the region and overseas. At JTC, we understand the culture of LATAM VC fund managers, and we are adding value to the ecosystem by helping them successfully scale internationally with tailor-made VC fund setup and administration services.”

## FINDING THE RIGHT DOMICILE

Lizbeth Flores of PAG.law points out that the choice of jurisdiction is crucial for VC funds looking to attract institutional investors that operate across borders.

“If LATAM VC funds are to attract mandates from global institutions, they need to register in jurisdictions where there is robust regulatory oversight, high transparency standards and solid investor protections. Fund hubs, such as Delaware, are likely to be among the beneficiaries here, especially for LATAM managers seeking out investments from investors who primarily reside in the US. However, if the majority of investors are non-US institutions, then it might be prudent to domicile in an offshore fund center, which may be more attractive to such investors,” said Flores.

“Delaware is the standard for many funds. Its corporate law is very advanced and has strong investor safeguards,” Flores added. Relative to fund hubs like the Cayman Islands, establishing in Delaware is inexpensive, partly because the required KYC and AML provisions are less intense. However, Flores stressed managers should still have KYC and AML procedures in place as a risk management measure and to attract institutional investors.

The benefits of Delaware as a fund hub are reiterated by VC Lab, a venture capital accelerator: “Delaware also has a long history of court precedents, which makes it an appealing jurisdiction to form entities. For funds in particular, Delaware





law offers a 'clean slate' upon which managers can build an entity that works."

Because of this, many fund managers opt for a Delaware fund structure, and VC Lab points out that there are reputable service providers that can handle setting up a Delaware fund structure efficiently. Funds formed in Delaware are typically formed as Limited Partnerships (LP) or Limited Liability Companies (LLC), though the latter is not as common. Delaware LPs and LLCs are both pass-through entities for tax purposes, which means gains and losses flow through to the underlying investors<sup>8</sup>.

For LATAM managers, domiciling a fund in Delaware will help them appeal to a wider gamut of investors.

"LATAM-based managers have come under intense pressure from global LPs concerned about the political, social, and economic instability in some of these markets," said Imery. "Risks here include runaway inflation, exchange controls and the threat of currency devaluation. Increasingly, LATAM managers are having conversations with LPs about basing their funds overseas, namely in Delaware. For many LPs, Delaware is in a stable country, and has a legal system based on case law. This makes it very attractive."

## OPTIMIZING SERVICE PROVIDER SELECTION

Like many other private capital strategies, the needs of VC are often highly tailored and complicated, which means the service providers – including fund administrators – supporting them need to offer managers customized solutions. "Fund administrators catering to VC need to have in-depth experience of that asset class. A commoditized service offering is not acceptable as VC firms have very particular reporting requirements and other needs. There have been instances of traditional fund administrators saying that they are experts in VC and private markets when they are not," noted Wouter Plantenga, ICS Head of Group Client Services at JTC.

Others agree. "From our point of view, a lot of venture capital firms struggle to find providers who understand the challenges of what managing a VC firm involves, whether it is the difficulties around capital raising or regulatory reporting or cross-border fund administration," said Michelle Murray, Senior Director – Fund Services & Inter Group Sales at JTC. Those providers employing individuals with real-world VC experience will have a natural edge.

"At JTC, employees know the VC fund industry, and our experience and business culture allow us to be flexible and provide the tailor-made scope of services clients need. We listen to their expectations and adapt our support as their fund evolves over time. We strive to build long-term strategic business relations with our clients," noted Murray.

One of our LATAM VC clients shared this with us: "We appreciated that JTC did not focus on the transaction of selling a cookie-cutter fund administration service, but rather that it was flexible and open to understand our needs and our goal of building a long-term business strategic relationship. The value they bring is their professionalism, experience, flexibility, and openness to adapt and help younger generation VC fund managers from LATAM. We also valued the unique fact that members of their team come from and have worked for decades in LATAM. For us understanding the LATAM culture was key. In aggregate, the latter was something we did not find in other service providers."

A solid grasp of LATAM and international markets is also a compelling USP. "One of the differentiators at JTC is that we have an excellent understanding of the LATAM and North American markets. We support fund managers through the entire lifecycle of the fund, from formation to wind-down and everything in between, delivered from worldwide onshore and offshore jurisdictions," said Plantenga.

## WHAT NEXT FOR LATAM VENTURE CAPITAL?

As more LATAM VC firms look to both invest and raise funds overseas, they will need to rethink their existing operating models. Firms seeking US investors are increasingly domiciling their funds in Delaware, a jurisdiction with an excellent legal framework and investor protections. Equally, LATAM VC firms should seek out service providers who are not only well-versed in the asset class itself, but which have a deep-rooted understanding of how LATAM and North American markets work. Doing so will help VC firms grow their funds and raise their profiles outside of their home markets.

JTC provides localized expertise and an on-the-ground presence in jurisdictions around the world, including in the US, where JTC offers fund administration, domiciliation, and other essential services for VC funds. For more information about JTC's deep fund expertise in LATAM, North America, and around the globe, visit [JTCgroup.com](https://www.jtcgroup.com).

<sup>8</sup> VC Lab – Fund Domicile - Delaware



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## ABOUT JTC

JTC is a publicly listed, global professional services business with deep expertise in fund, corporate and private client services.

Every JTC person is an owner of the business and this fundamental part of our culture aligns us with the best interests of all of our stakeholders.

Our purpose is to maximize potential and our success is built on service excellence, long-term relationships and technology capabilities that drive efficiency and add value.

### We value shared ownership

- › We operate around the principle that if our people have a stake in the business, they will do a better job for our clients.

### We value relationships

- › We aim to work with clients who share our belief in the importance of building strong relationships over time.

### We invest in our people

- › Over 83% of our employees hold a relevant professional qualification or are working towards this through our dedicated JTC Academy.

### We embrace technology

- › We operate a variety of best-in-class systems to deliver and maintain an impeccable standard of administration and use technology to innovate in both service delivery and efficiency.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG)



- › Our environmental, social and governance (ESG) framework has at its heart our culture of shared ownership and is informed by our purpose, which is to help maximize the potential of every client, colleague and partner with whom we work.
- › We believe that we will thrive as a business by working in a sustainable way, operating within constantly evolving legal and regulatory frameworks, respecting the natural environment and creating a positive impact for the communities where we live and work.
- › We understand the ESG risks and opportunities our clients face and as a listed professional services business with expertise across a wide range of sectors, geographies and asset classes, we are ideally placed to support our clients with a range of solutions that help them meet their own ESG commitments and goals.



STRONGER TOGETHER

