

Brazil's Fintech Platforms Democratize the Capital Markets

Digital platforms from fintech entrants, big tech firms and incumbent financial institutions are transforming the financial services industry globally, especially in Latin America's largest market, Brazil. Businesses and consumers are benefiting from the changing market structure through dramatically lower costs, more competition and choice, as well as expanded financial inclusion. The COVID-19 pandemic accelerated this trend because these platforms can deliver financial services remotely and meet the increasing demand for payments, credit, savings and investments, and insurance online without the risk of physical contact.

During February 2022, Nasdaq hosted a [Trade Talks Spotlight on Latin America](#) featuring leading startups from Brazil that are boosting prosperity by offering wider access to the capital markets both in the region and abroad through increased access to international market data and investable products.

Expanding Access to More Investors

While Brazil is Latin America's largest market, only a small percentage of the population of 212.6 million¹ people invests in stocks. Historically, barriers to access including high investment minimums and brokerage fees have automatically excluded a huge pool of potential investors. Additionally, potential investors were limited in their scope of information without the ability to view or trade on international market data. Instead, they typically park funds in low-interest or zero-interest deposit accounts that ultimately are affected by inflation. However, several digital platforms are lowering the barriers to access with new retail products, real-time last sale and quote data, and intuitive platforms.

Among the more established players is [BTG Pactual](#), which offers investment banking, wealth management, corporate lending, asset management, research and third-party distribution services. The company is one of the largest independent asset managers in Latin America with offices in Brazil, Chile, Colombia, Mexico, Argentina and Peru. It also has offices in the U.S., the U.K. and Portugal. In 2021, it had R\$553 billion in assets under management (AUM) and assets under advisement (AUA).² Through a partnership with Nasdaq, BTG Pactual launched a semiconductor fund that replicates the PHLX Semiconductor Sector Index™ (SOX™) as well as a biotech fund that tracks the Nasdaq Biotechnology Index™ (NBI™). In addition, it recently launched a digital bank, BTG+. Customers can take advantage of a customizable card, transfers and payments, a digital wallet and premium plans with no minimum balance.

Another established Brazilian player, [XP](#), provides specialized investment advice, access to an array of products including fixed income, stocks, investment funds, life insurance and private pensions. Over the last couple decades, the platform acquired more than 3 million active customers. In May 2021, it launched the [Trend ETF Nasdaq 100 Index Investment Fund™ \(NASD11\)](#), which allows investors in Brazil to invest in the companies comprising the [Nasdaq-100® Index](#).

1 See https://www.google.com/search?q=population+of+brazil&rlz=1C1UEAD_enUS980US980&oq=population+of+brazil&aqs=chrome..69i57j0i512i3j0i10i512j0i512i5.4662j0j4&sourceid=chrome&ie=UTF-8

2 See <https://www.btgpactual.com/us/asset-management>

“There are plenty of opportunities for the startups and the technology companies to come up with products to solve these [barriers to access] problems that we have,” said XP Equity Strategist Jennie Li.

Warren Brazil's CEO Tito Gusmao agrees. His company offers an app that allows retail investors to trade stocks, ETFs as well as treasury and other securities. It charges a one-time fee on investments and refunds all the commissions it earns on third-party funds. Customers can use the platform to pay bills, and they can withdraw money at any time with no fees. Warren creates and manages its own funds and provides access to investment funds from other managers, too.

“We started last year at US\$3 billion AUM, and we ended the year with almost US\$20 billion,” said Gusmao. “But this year we have to grow even faster. Our aim is for US\$40 billion under management by the end of the year.”

Nelogica is a software developer that provides mobile and desktop applications as well as data, including [Nasdaq Basic](#), and tools to institutional and retail investors. CEO Marcos Boschetti believes his company's growth potential is enormous. Nelogica has already grown substantially every year since it was founded in 2007. The company has more than 700 employees – half of whom work in technology-related jobs – but he expects the headcount to increase by 50% in the next year as it expands to new geographies globally.

“People are realizing that we don't have to be restricted to certain geographies,” said Boschetti. “So we're going to help people connect to liquidity in other places.”

Providing Diversification to the Market

Interestingly, Brazil has been progressive in its acceptance of cryptocurrencies. In April 2021, Brazil was among the first countries to launch a cryptocurrency ETF, the [Hashdex Nasdaq Crypto Index Fund](#), which seeks to track the [Nasdaq Crypto Index™ \(NCI™\)](#), on Brazil's B3 exchange. According to Bruno Sousa, Head of Global Expansion at [Hashdex Asset Management](#), the product is now the second largest ETF in Brazil next to the one that tracks the S&P 500. Hashdex also offers the Victory Hashdex Nasdaq Crypto Index Fund™ to U.S. accredited investors. Four months after the launch of the Hashdex Nasdaq Crypto Index Fund in Brazil, in August 2021, they launched ETFs tracking Nasdaq's Bitcoin and Ethereum Indexes, allowing investors in Brazil access to invest in either Bitcoin or Ethereum.

Foreign investors have sought to diversify their portfolios by investing in emerging markets including Brazil. At the same time, Brazilian companies have increasingly raised capital in their own markets instead of abroad. Nowadays, Brazilian investors also want to diversify by investing in foreign markets. That's prompted increased interest in access to quality market data and investable products from U.S. companies, such as Nasdaq.

“With some of the political volatility that we've seen in Brazil and the currency reacting to it, I would see a bigger interest from investors to look for alternatives outside of Brazil,” says Will Landers, Head of Equities at BTG Pactual. “We'll continue to expand our options for investors to gain access not only to the Brazilian market, but also to the foreign market.”

BTG Pactual is not alone in that mission. Aaron Polhamus, CEO of [Vest](#), an Austin, TX-based broker-dealer, who co-founded Vest with Miguel Arroyo and Jaime Rodas, explained that his company's mission is to empower Latin American retail investors to build a better financial future. He described Vest's app as being beautiful and intuitive to use while reducing the friction to access U.S. dollar capital markets. There's no commission for trading and no minimum to open an account. Vest is currently interested in lowering access barriers to U.S. capital markets, but in the future, Polhamus believes there's an opportunity to enable U.S. investors to look for attractive opportunities in Brazil, Mexico, and Colombia via the platform.

These and other fintechs are breaking barriers to access including high investment minimums and brokerage fees that have automatically excluded a huge pool of potential investors in Brazil. We expect to see these companies accelerate in the future and create great opportunities for financial inclusion.

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