Q3 2020 Earnings Call

Company Participants

- Joao Marcello Dantas Leite, Executive Officer and Chief Financial Officer
- Roberto Balls Sallouti, Chief Executive Officer

Other Participants

- Jorge Kuri
- Marcos Assumpcao
- Thiago Batista
- Tito Labarta

Presentation

Operator

Good morning and welcome to the Third Quarter 2020 Results Conference Call of Banco BTG Pactual. With us here today we have Roberto Sallouti; Joao Dantas and Jose Miguel Vilela. We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the bank's presentation.

After Banco BTG Pactual remarks, there will be a question and answer session for investors and analysts, when further instructions will be given. (Operator Instructions). Today we have a simple simultaneous webcast that may be accessed through the website www.btgpactual.com/ir in the platform. There will be a replay facility for this call from November 10 through November 16.

Before proceeding, let me mention that this call may contain forward-looking statements relating to the aspects of the business estimates for operating and financial results and those related to growth prospects of Banco BTG Pactual. These are merely projections and as such, are based exclusively on expectations of Banco BTG Pactual's management concerning the future of the business. Such forward-looking statements depend substantially on changes in market conditions, government regulations, competitive pressures, the performance of the Brazilian economy and the industry among other factors and risks disclosed in Banco BTG Pactual's filed disclosure documents and are, therefore, subject to change without prior notice.

Now I'll turn the floor to Mr.Roberto Sallouti, who will begin the presentation. Mr.Sallouti, please go ahead.

Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you very much. Good morning to all of you in the northern hemisphere. Good afternoon for you -- for those of you here in the southern hemisphere. So we are very satisfied with the results of the third quarter. We think not only were they quantitatively exactly where we want to be, but we especially think that qualitatively, they were very, very solid and important results.

So starting on page 3, we show the highlights of the quarter. So we finished the quarter with best-in-industry capital liquidity metrics. This comes after we did the capital increase at the end of the second quarter. And even though we deployed capital, we continue at the most conservative and the most liquid metrics of the industry and this continues to benefit our client franchise. We can see this in the numbers of net new money and of unsecured funding.

So we had a record quarter for net new money. We had inflows of BRL37.4 billion in the quarter finishing with over BRL550 billion between assets and wealth management. And this is great because it leverages our distribution capacity and our funding base becomes more diversified. We finished with our unsecured funding base growing BRL20.4 billion in the quarter or 25% -- above 25% quarter-on-quarter, and this is with inflows across all client segments and maturities.

We had a record quarter in revenues in investment banking. We also had a record quarter in corporate lending where we reached BRL425 million in revenues. We continue growing our credit portfolio, we grew at 19.4% quarter-on-quarter or BRL11.1 billion. And we continue growing our SME portfolio, which has grown year-on-year around 5 times reaching BRL5.8 billion. And finally, we launched in the third quarter, our full service digital retail bank, BTG+, now offering our clients a full spectrum of retail products and services, including checkings and checking accounts and credit cards.

Moving on to Page 4. We talk a bit about the financial metrics for the quarter. So we delivered in the quarter 15.7% return on equity. We had total revenues of BRL2.478 billion and adjusted net income of BRL1,016 million. This yields a net income per unit of BRL1.12. Even though we're making significant investments in our digital retail units, including BTG Pactual and BTG+, we continue with a very close to historical norm of our cost income ratio, so we finished the quarter with a cost-to-income ratio of 43.7% and a comp ratio of 27.2%. And we finalized the quarter with total assets of BRL253 billion, a BIS capital ratio of 17.5%, and shareholders' equity of BRL26 billion.

Moving on to Page 5. We can see the numbers regarding the first nine months of the year, where, again, we had for the first nine months return on equity of 15.7%; total revenues of BRL6.478 billion, net income of BRL2,792 million, and again, cost-to-income ratios close to historical average 42.8%; comp ratio of 25.2%; and our shareholders' equity increased throughout the year, year-on-year 25.1% to BRL26 billion, as I mentioned previously, already adjusting this for the JCP which was provisioned, but not paid yet of BRL533 million.

Turning to Page 6. We can see the breakdown of revenues among business areas. The trend that has been happening over the next -- last few years and quarters continues where we're seeing significant growth of our client franchises.

We continue to expect that they will grow at a very fast pace and will continue to become every quarter a larger part of revenues. You can see a very important decline in the participation of revenues and participations and principal investments as well as interest and other, which is basically a consequence of decline in the CDI to historical low levels below 2%. With that, you can see importance being gained by investment banking, corporate lending, assets and wealth management, which is exactly the strategy that we laid out a few years ago and have been implementing over the last few years.

In Page 7, we talk a bit about our ESG development for the quarter. So our green economy credit portfolio achieved BRL15.9 billion in total. We disembursed BRL3.7 billion of this portfolio in the quarter. We structured a sustainable bond in the local market raising BRL260 million for a company that will expand its water and sewage system in Brazil. And we were the book runner of the first transition issuance in the local market, where a company raised BRL948 million to finance investments that will transition its energy platform to a lower carbon emission fuel.

We also added some commitments to our company over the quarter, so we launched a partnership with BlackRocks, an innovation, technology and mentorship hub to accelerate the companies founded by black entrepreneurs. We launched BTG Soma, which is a mentorship initiative to accelerate NGOs basically help them professionalize, develop marketing, fundraising skills. We developed our green, social, and sustainable financing framework so that we can in the next few quarters and years originate assets, which will already be served as reference for the issuance of this type of bonds within this framework.

We also signed on to equator principles in the quarter. And finally, we launched our Landscape Capital strategy within our Timber Group. We have a new fund and strategy, which will be focused on investments in land, which -- where half of it will be reforested in the endemic forests, and half of it will be used at Timberland to develop timber for future usage, commercial usage.

With that, I'll pass the word to Joo Dantas and he will talk about the performance of each of the businesses.

Joao Marcello Dantas Leite {BIO 17617595 <GO>}

Thanks, Roberto. Thank you to all our investors and clients joining us today. So I'll start on section one to discuss the performance of our business units. But before that, just to put things in perspective. I think it's fair to say that our third quarter of 2020 is probably our strongest quarter that we have ever presented. We have elements of growth in our operating revenues and in our market share, and that's across all business segments. Besides that, we have built up even stronger capitalization and liquidity, especially when you compare our capitalization and liquidity to the large Brazilian bank than our competitors. And also we are launching, as Roberto mentioned, our consumer bank. And we have done all that while delivering strong results. So we're going to see to through the business line performance why are we able to deliver that quality of quarter in the second quarter.

So starting on Page 9 on investment banking. The quarter in investment banking was dominated by capital markets activity. Both equities and fixed income capital markets were quite active. We had very little M&A revenues across the market and very little M&A activity happening. In this return of capital markets activity in LatAm, we fared very well. As you can see, we finished the period in number one, in number of transactions in ECM, number two in Latin America. And also despite low volumes also we finished number one in (Inaudible) transactions in M&A in Brazil and LatAm. We reached BRL402 million of revenues, which is our highest revenue ever for investment banking in a single quarter.

We continue to see markets open and functional towards the end of the year. However, we know that there was a significant amount of portfolio reallocation back into equities that already happened post the COVID-19 pandemia stabilization and that has already taken place. So all-in-all, very good quarter and remarkable performance of investment bank.

Moving onto Page 10. Here we have our corporate lending portfolio. Our corporate lending credit portfolio is presenting 20% growth quarter-on-quarter and 75% growth year-on-year. The marginal asset credit quality is higher as well. The average quality of our credit portfolio is increasing as we grow. Why is that? We took advantage of our well-capitalized and well-funded balance sheet and increased our market share while our competitors have spent most of the period in Brazil dwelling with renegotiations or dealing with lower capital base, therefore, having less appetite to grow the book.

We have increased our market share and we went from 1.9x credit to equity to 2.6x credit to equity. We used to operate the bank before closer or even slightly higher than 3x assets to equity, so we are really still at a profitable level of credit and we took advantage pretty well, our commercial areas, our sales areas and our credit risk areas have delivered what was probably a lifetime opportunity to grow market share.

In return, we are delivering BRL425 million of revenues not only from corporate lending but also counting with solid contribution from our special situation desk, so we are reaching this new plateau of revenues in the quarter. Our SME portfolio, which is basically digitally originated supplier financing trades thus far has reached BRL5.8 billion and continues to grow. Besides the supplier financing trades, we are now starting to launch big products in our SME lending platform. And also in 2021, we will be offering transactional banking services and collection services to all our SME clients.

Moving to Page 11. Here we have the sales and trading performance. Sales and trading revenues reached BRL893 million of revenues in the quarter, a very strong performance. Although it is 12% below our previous quarter, which was a very strong quarter, it is 30% above our average revenues for 2019. Also in fact, sales and trending, it's worth mentioning there is a shift in revenue mix that continues to happen.

We have not only more revenue contributors, more desks of our trading -- of our sales and trading area are contributing stronger -- with stronger revenues, for example, credit fixed income. But also we have bigger revenues coming from FX flow, fixed income flow, equities brokerage, which are purely fee-driven or revenues with less intensive usage of balance sheet, if you will.

So the revenue mix has an important change. We can observe that inside the analysis of revenues of sales and trading. We can also observe that looking at the risk -- looking from a risk perspective at the VaR. VaR utilization today is at about 60 basis points of our average -- 60 percentage basis points of our average equity, which is below the average of last year. Even though revenues are bigger than the average of last year, VaR utilization is lower, which comes from the fact that there's more revenue diversification and also more revenues from pure client activities. You can see that also looking at risk density and looking at capital requirements for market risk. So all in all, we believe a very strong quarter for sales and trading, a strong level of revenues, more diversification, more revenues coming from pure client flows.

Moving to Page 12, we have performance of asset management. In a sentence, we continue to grow market share. As you can see on the right part of the page net new money reached BRL16.6 billion. Assets under management grew 8% quarter-on-quarter reaching BRL329 billion. It also grew 30% comparing year-on-year from BRL254 billion to BRL329 billion year-on-year. And with that, we were able to generate BRL255 million of revenues.

If you compare current revenues, the revenues of the third quarter of 2020 with revenues of the third quarter of 2019, we have presented 30% growth on revenues, which is in-line with the growth of assets under management and implying that our ROEs are stable even though CDI has fallen significantly in Brazil year-on-year. The average CDI 2020 is 3% annualized. The average -- the CDI for 2019 was 6%. So even with half of the CDI on an annualized basis, we are delivering 30% more revenues and stable ROEs.

Other significant achievements in the asset management business that are worth mentioning. We have had a lot of success in the real estate franchise. We raised a lot of capital. We are the number one real estate asset manager in Brazil and we raised new funds and we did several deals in the year. We have also successfully raised private equity money in the economy real funds. We raised one economy real fund on September and we are raising a second one in October. And perhaps the most successful part of asset management in terms of asset gathering was our Funds Services franchise, which will significantly and continues to grow as we speak.

Moving to Page 13, we have wealth management performance. We continue to grow our market share in wealth management even more than we did in asset management because here we have contribution from the high net-worth business and from the digital retail business. So starting from the right of the page, we have BRL20.8 billion of net new money in the quarter, which is the highest net new money for a single quarter in the wealth management business in our history. We reached BRL221.5 billion of wealth under management, which is a 15% growth from last quarter and a 40% growth from the same moment last year.

With that, our revenues reached BRL234 million, which is an 18% growth quarter-on-quarter and a 45% growth year-on-year, which demonstrates not only that we are growing because of the growth of assets, but also our ROE is expanding as we grow.

So a very solid performance from wealth management, worth mentioning also that our digital retail platform continues to demonstrate very strong growth capacity and to be the best-in-class operational environment measured by NPS scores. Worth mentioning also the launch of our transactional banking services under the brand BTG, as Roberto mentioned before. This is already a full-service bank for hundreds of clients. We're still in a soft launch process. We are opening gradually to our own clients, the transactional platform. The checking account and the credit cards are already functioning but for a limited number of clients. It's a soft opening. Next year, we will be opening fully the platform for client gathering on a wider perspective.

And while we do that, we already have hundreds of clients that have just BTG as their bank account. So fully served by our services and products. The platform is fully operational. It is designed for the type of clients we already have, the type of investors, clients that invest and have sophisticated transaction checking account requirements and we're very happy with the launch so far, going -- as operationally going as expected.

And finally, worth mentioning that we did an acquisition in the quarter, the acquisition of Necton, which is online retail equities broker operating in Brazil. We're very happy with that as a part of our consolidation. We didn't close yet the transaction. Net new money is not impacted yet by Necton. It is only going to -- net new money is only going to be impacted when we close the transaction, which we expect to do in the first half of next year.

Moving to Page 14. Here we have principal investments. Worth mentioning the BRL131 million of revenues in the quarter come from our mark-to-market of Eneva, and that position continues to be marked below the current market price. We apply a significant discount. No other revenues or losses occurred in the quarter, no revenue, no expenses coming from other investments.

Moving to Section 2, we now will discuss on Page 16 our expenses and main ratios. As you can see and Roberto highlighted before, on the third quarter of 2020 we have a normalized cost income ratio of 44%, and for the 9-month period of 2020, our cost income ratio was 43%. Salaries and benefits are basically flat a 2% variation up from the second quarter. We continue to hire people. We continue to increase our team -- to grow our teams and increase our efforts in developing our digital retail initiatives, so the 2% comes mostly from new hires.

On administrative and other costs we have a 9% growth, 10% growth from last quarter, but we are still operating below the level of expenses of the third quarter of 2019. So costs pretty much in control 44% is our historical normalized cost income ratio. Even though we are doing a lot of investments and we flow all these investments through our P&L, our cost income ratio continues to be at the same pace of our historical performance, which means we are growing our revenues and growing our capacity to invest without any compromise to our capacity to generate earnings and increasing our potential to generate further earnings, bigger earnings in the near future.

Moving to Section 3, here a brief description of our balance sheet on Page 18.

Total assets have increased about 10% quarter-on-quarter from BRL230 billion to BRL253 billion. We operate the bank today with about 9.7x assets to equity. I always mention, we typically have operated the bank in the past between 11 and 12x assets to equity, so we're still at a comfortable level of assets and with room to grow our asset base gradually as we see assets of good quality to add to the balance sheet.

We have record-high liquidity. Our cash and cash equivalents reached BRL35.5 billion. Our LCR is at 214%, which is the regulatory measure of liquidity, and that LCR is higher than the other five segment loan banks in Brazil: Adesh; Itau; Santander, Banco de Brasil; Caixa, which are also segment on banks besides us and we operate today with an LCR that is slightly above those competitors.

Even though we are still an investment bank -- running an investment bank model with limited growing but still limited retail funding contribution. Despite the growth in assets, our risk density has not expanded. We continue to run the bank with very comfortable levels of capital, capitalization and our capitalization ratio is also about 2%, 3% above 2 or 3 percentage points above the capitalization ratio of our competitors in Brazil.

Moving to Page 19. Here is why our liquidity position is so comfortable, which is an analysis of our unsecured funding base. As you can see our unsecured funding reached BRL100 billion in the quarter, growing 25% quarter-on-quarter. Last quarter we finished with BRL80 billion of funding, so we added BRL20 billion of funding in the quarter.

The funding base doubled, almost doubled year-on-year, so coming from BRL52.3 billion to BRL100 billion in the period of one year. This is due to our -- in our view, this is due to the fact that we maintained the bank operating at very high capital ratios and very comfortable liquidity ratios throughout the time, which attracted this phenomena that we name flight to quality, which has expanded our funding base throughout different maturities and different sources.

We have added funding from institutional clients, wealth management clients, especially corporate clients and we have added debt funding in securities issued and time deposits. So it's our own clients increasing their deposits with us, which gives us confidence this is a permanent sticky movement that is going to continue going forward.

And then moving to Page 20, finally, our BIS ratio and VaR. As you can see our BIS ratio total capital ratio is at 17.5% in the end of the quarter still above the efficiency levels we can reach. We are gradually expanding our total assets, but making sure we add assets with good quality. We have maintained 17.5% capital ratio, which is, as I said, 2% or 3% above the competitors in Brazil while we run the bank with 0.61% of VaR over average equity in the quarter, which is higher than last quarter, higher than the first quarter, where there was very little risk appetite in markets as it was the case for us, but lower than the average of 2019 and 2018.

So the essence why we say that this is probably our best performance in a quarter average is because not only we are growing operating revenues while CDI declines, we are substituting the decline in CDI for even stronger operating revenues. Interest and other today is a very small component of our mix of revenues, is around 4%, it was before close to 10%. And there is a new flow of revenues coming from operating areas, so stronger revenues, more diversification, strong capitalization and very solid organic balance sheet growth and market share growth with a lot of quality.

Those were our comments for today, and we were happy to take questions from you all. Thank you very much.

Questions And Answers

Operator

(Question And Answer)

The floor is now open for questions from investors and analysts. (Operator Instructions). Our first question is from Thiago Batista from UBS. Go ahead.

Q - Thiago Batista {BIO 15398695 <GO>}

Yes. Hi, guys. Good afternoon. I have one question about BTG+ or BTG-. How big do you believe BTG- is going to be in some years? And what exactly BTG aims with BTG-? So in a different way, do you believe that the client will use BTG- as the prime bank or do you believe that BTG- is a way to increase the stickiness of your -- of the client of BTG Itau in the bank? So how do you guys are seeing BTG- in a couple of years? So how important this business will be?

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you, Thiago. So yes, the vision is that in two years, our clients would feel comfortable as having BTG+ as a sole bank. We want to, and over the next couple of years to build out a differentiated platform, focused on our profile of clients with the level of service and UX and with a product and services offering that anyone who is our traditional client in the retail or in the mass affluent or in the wealth management universe can feel comfortable having it as its only bank. That is our vision.

It's a bank that will be focused much more on, let's say, a segment of the market which has maybe around 20 million accounts in the market. So it's not going to be a product that's going to be focused on having the maximum number of clients, but having the clients that fits the profile and the offering of the platform. So that is the vision.

At the same time, as you mentioned, it increases the stickiness of our investment clients and it also justifies that we go into the retail investment market because now when you have more products and services, the lifetime value of the customer of the retail segment is justified given the client acquisition cost. We are very conscious of where we invest in IT and marketing, and we're very reluctant on falling in the focus of just focusing on number of clients and not on what type of clients we are bringing, because not necessarily all the clients that you're bringing to your platform will make it profitable and can also overburden the system and give a less pleasant experience to the clients which were focused. So I'm not sure I answered exactly your question, but I think I -- in some way I addressed your concerns.

Q - Thiago Batista {BIO 15398695 <GO>}

Perfect. You talked about all the points. Thanks for that answer.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you, Thiago.

Operator

Our next question is from Tito Labarta from Goldman Sachs. Go ahead.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, good afternoon. Good morning, everyone. Thanks for the call and taking my questions. Also I guess following up on Thiago's question on BTG+. Maybe -- so now, most of the revenues that you'll be generating will be coming more on the wealth management side or the wealth management business? And can you give any color? You mentioned the wealth under management is split between the high net worth and the digital retail. Any sense of what the split is like or where the growth -- where more of the growth is coming from? Any color you can give on that would be helpful.

And then second question, just on the cost-to-income ratio. You mentioned it's in line with historical levels, but it has increased a bit since last year. Do you think given the investments that you're doing, should that deteriorate a little bit further? Should that begin to stabilize? Or can you even get back to where you were, say, a year ago, just to get a sense of on the trends, given the investments that you're doing there? Thank you.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you, Tito. So on BTG Plus, we have -- we were doing this in a phased approach. We started with friends and family. We, about a month ago launched it to our digital clients and we're doing that in ways. Once we complete that, we'll start offering it to our wealth management clients and the plan is that January next year, we go to the open market. Regarding the net new money in wealth management, we've always had a significant market share in the high net worth market. We continue gaining market share. And before we started our retail unit, we had zero in the mass affluent and zero in retail. Where we have been gaining significant market share is in the mass affluent and only just I would say in the last two quarters have we started to gain very small market share in the retail, which would probably accelerate now that we have a full product offering. Of the growth you're seeing, naturally there's a bit of a limit as to the market share that we can have in wealth management. So it's fair to say that every quarter, the importance of the -- our retail unit increases both as a total and as we continue to gain net new money.

And finally, on cost-to-income, we plan to continue investing. Naturally, there's a bandwidth within which the cost-to-income fluctuates, but we expect that band to become stable, right, so we don't expect any significant deterioration outside of the band that we've been historically at even though we plan to continue investing heavily to build out our digital retail area.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Perfect. Very helpful. Just one quick follow-up on the cost income. Do you think it stabilizes around the 44% that you delivered this quarter? Or does it go a little bit higher up from here? Just when does it begin to stabilize? Or where, I guess?

A - Joao Marcello Dantas Leite {BIO 17617595 <GO>}

(Multiple Speakers) The problem is not around the costs. The problem is the costs are pretty stable and under control. What we don't dominate so much is the revenues. They can grow, they -- it depends on the quarter. So cost income is a function of both. So hard tell you about the cost income ratio more because of that.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. No, I understand. Sorry to get so specific, but to just to get a sense in terms of how much the investments are required, but I understand it will be dependent on the revenue growth as well, but that's helpful. Thank you.

A - Joao Marcello Dantas Leite {BIO 17617595 <GO>}

The thing to know is that if ever we decided to stop the music and not to go forward with the digital retail initiatives that we're launching, there is negligible amount of cost to write down on the balance sheet. I wouldn't say zero, but it's very close to zero. There's probably something there that we would write down. But everything that we invest flows to the P&L, has been expensed already. Going forward, we will add revenues and not additional costs.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Perfect. Thank you.

Operator

Our next question is from Jorge Kuri from Morgan Stanley. Go ahead.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi, good morning, everyone. Congrats on the phenomenal quarter. I have questions, please. The first one is on your banking initiative. It seems to me that in order to become the main bank, retail bank of your clients either Wealth Management clients or the mass affluent clients, you're going to have to dig deep into the lending business. All of these individuals have bankdowns elsewhere and getting payroll loans, credit cards, personal loans, mortgages. And in my view, in order to be competitive and really become their main bank, you have to go into those businesses. And so otherwise, you end up just having the cost and none of the revenues. To what -- (inaudible) dates and the track record that you have to start providing more riskier long-term loans to individuals in order for them to really use you as a primary bank, and then my second question is on the return on equity of the business. And I get it that so many things are changing or have changed from the composition of your revenues, more interest in banking, more asset management, less sales and trading, less principal investments, interest rates evidently are very different today than a few years back. But if you think about the sustainable level of ROE vis-a-vis a country that has Selic rates of 5%, 6%, what do you think you can generate in terms of return on capital. Thank you.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you, Jorge. So on the credit business for the retail business, you are correct. That's definitely on our roadmap. It's something that we have a lot of experience from Banco Pan. So for now you have to remember Banco Pan has a very big business of payroll lending, a very big business of vehicle financing, a very big credit card business. And in some of Banco Pan's lines such as motorcycles, which resembles much more a clean credit than a collateralized credit when you were evaluating the quality of the credit, so we feel very comfortable building out these credit lines and building partnerships where we might not be competitive, given the profile of our funding, until we have developed capital markets such as in the mortgage space.

We think that to carry long-term, more long-dated mortgages on our balance sheet, we don't necessarily have the funding profile at this moment, even though we will seek to build it out, but we're trying to either through capital markets or through partnerships address this. So clearly, we want to offer -- we have a roadmap that is very clear to us. We will be offering our clients the banking, the credit, the investments, the loyalty products, everything that he will have on the top tier competitors that we have in Brazil. We think that there's a very competitive and I've mentioned this a few times./ everybody complains about concentration. Concentration happened because these banks are very competent, right? They are very competitive in getting scale. And at that time servicing clients with their expectations. Expectations of the clients have changed with the technology build-out and with the new, let's say, behavioral characteristics of clients, so we think there's an opportunity there for us to offer a service where we can become the number one bank.

And on your question on return on equity, we definitely believe that especially with CDI normalizing back to 5%, 6%, and as soon as our investments mature in two to three years, we want to go back to the above 20% return on equity. We said that in our last road show, and we continue to have that in our -- in our very short term future, next two to three years.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thank you. Thanks again.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you, Jorge.

Operator

(Operator Instructions) Our next question is from Marcos Assumpo from Itau BBA.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

Hi. Good afternoon, everyone. So first question is on the increase in competition on the retail and also wealth management business. What are you seeing as alternatives to compensate for some of this price pressure that we're seeing? And what do you expect to be the sustainable returns of these businesses in the longer-term? Second question, if you could comment a little bit on the performance of the recent acquisitions of IFA offices in terms of bringing in AUC from former clients? And when you're looking for those acquisitions, what is the type of return that you're targeting? Thank you very much.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you, Marcos. So actually, given that we are much more the competitor than the incumbents going to the retail, we actually -- if you look at the ROE we have in wealth management, which is hovering around 40 bps in ROE that we have an asset management around 30 bps, we actually expect these ROEs to increase over the next few years and not decrease, because we think we are already offering very competitive products to the clients of the market and we still have 85% to 90% of the market which is concentrated on the five big retail banks. So we don't necessarily expect any margin compression coming in these businesses. If anything, we actually think we can expand as clients shift their portfolio and as since we're an accelerated growth, once you bring assets into the bank, they take a while to start generating revenues, they don't necessarily generate them at the same moment. Given the competition in the IFA market, we've been quite successful in transferring the assets. The latest one which is public information, it's not something -- so I can say it here, which is, let's say, probably the larger highest-profile IFA that came to our network already brought around 35% of the assets it had and I think in 2 to 3 months. So the transfer of assets has been quite successful, and in maximum 12 months. The IFAs that come to our platform have 100% of the assets they had when we negotiated with them. So basically, the modeling has been paying out with the very short-term, let's say, pay off of this investment, which is working model when we bring them in.

But at the same time, I think we have already gained what I consider is an important market share consolidating ourselves as the second largest player in this market. And from here probably going forward, you will see organic growth to become as important as non-organic growth in our platform.

Q - Marcos Assumpcao {BIO 7474402 <GO>}

All right. Thank you very much.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Thank you, Marcos.

Operator

Thank you. That brings us to the end of our question-and-answer session. I would now like to turn the floor to Mr.Roberto Sallouti for closing remarks.

A - Roberto Balls Sallouti {BIO 4150617 <GO>}

Once again, thank you very much for joining our quarterly results call. Looking forward to talk to you early February when we talk about full-year results. Have a great week, and thank you once again. Bye-bye.

Operator

Thank you. This concludes today's presentation. You may now disconnect.