



# The Venture Capital Industry in Chile

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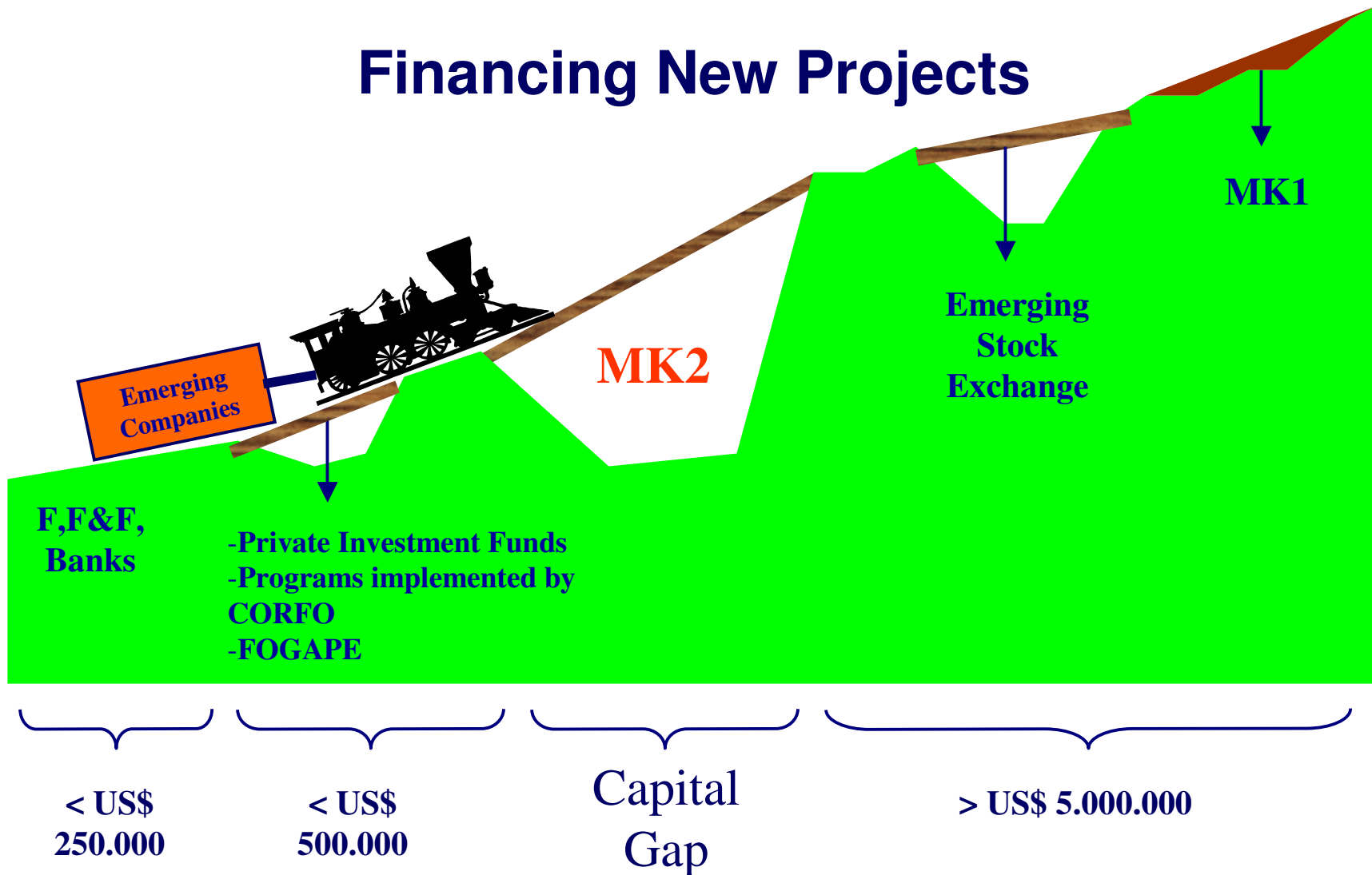
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## Financing New Projects



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- ✓ The industry was born in 1989 with the Investment Fund Act N° 18.815
- ✓ In 1992, the first venture capital investment funds began their operation
- ✓ During the 90s, the venture capital industry did not show the expected development
  - ✓ The original design of the regulation was too rigid
  - ✓ A few bad experiences frightened away investors
  - ✓ Big rewards have been absent, so there are no examples to attract investors

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- ✓ Situation until the year 2001
  - ✓ Bad Experience in the profits obtained by investors.
  - ✓ Lack of experience and track-record for Venture Capital Managers.
  - ✓ High perception of risk for the industry.
  - ✓ High supervisory costs compared to the amount of money invested.

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- ✓ In 2001, a series of amendments were made to the Investment Fund Act in order to attract new projects and investors
- ✓ The main amendments were:
  - ✓ Flexibilization of restrictions on the instruments in which the funds are allowed to invest.
  - ✓ Flexibilization of the limits for investments as percentage of the assets of each firm: emerging companies have low level of assets compared to their financing needs.
  - ✓ Creation of the “Emerging Stock Exchange” (*Bolsa Emergente*), which makes exit strategies for venture capital investors easier to be implemented.
  - ✓ Tax exemption for tax on capital gains coming from emerging companies.

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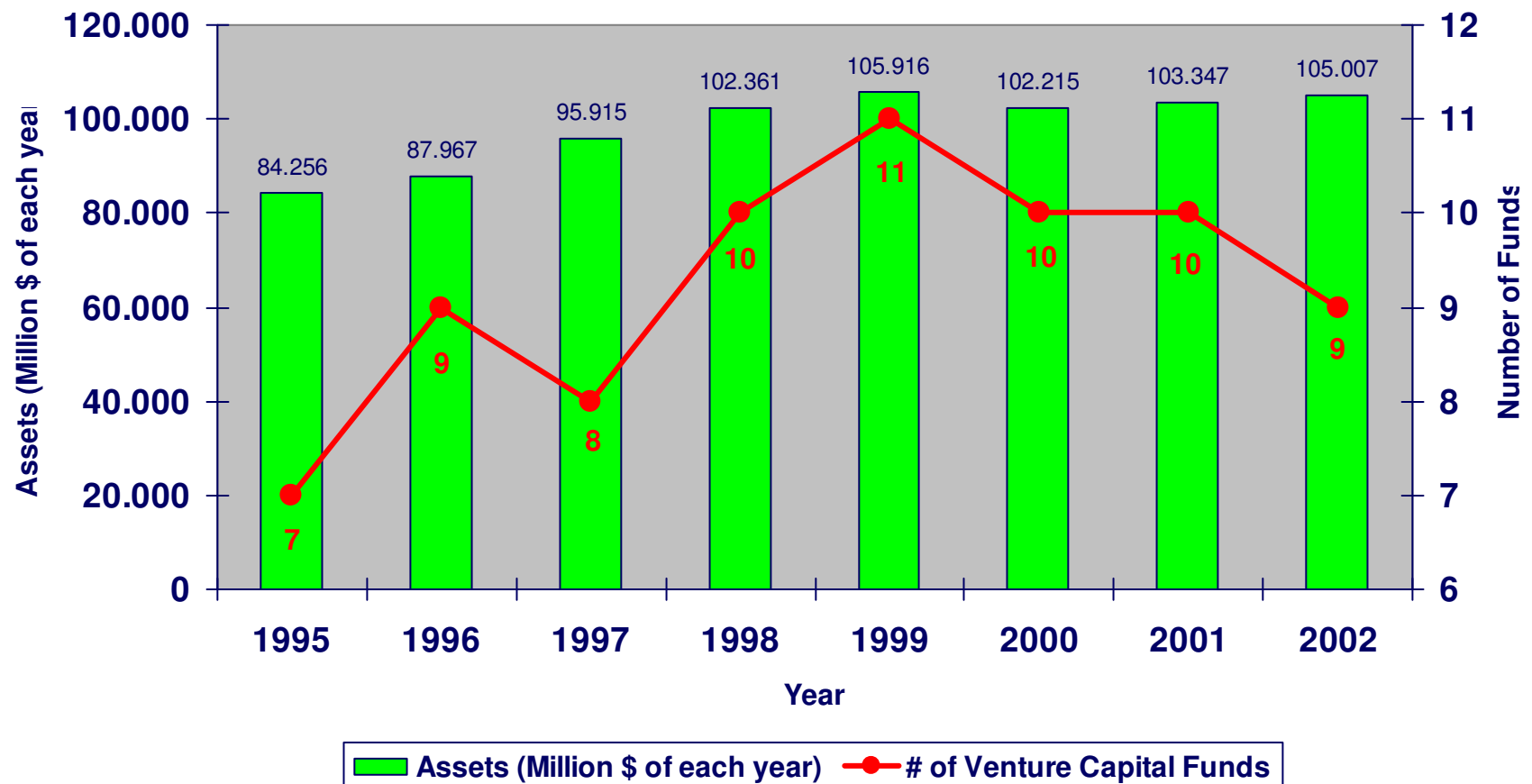


- ✓ Due to the cyclical characteristic of the venture capital industry, and given the slowdown in the international economy during the past years (which affected Chile), many of the problems detected during the 90s remain
  - ✓ Low returns for investors has remained as an important issue.
  - ✓ Although managers and investors have gained experience, it is not enough to develop the industry or to change the high perception of risk.
  - ✓ There are still high supervisory costs compared to the amount of money invested.
- ✓ The government wants to solve these problems with the second capital market reform (MK2)

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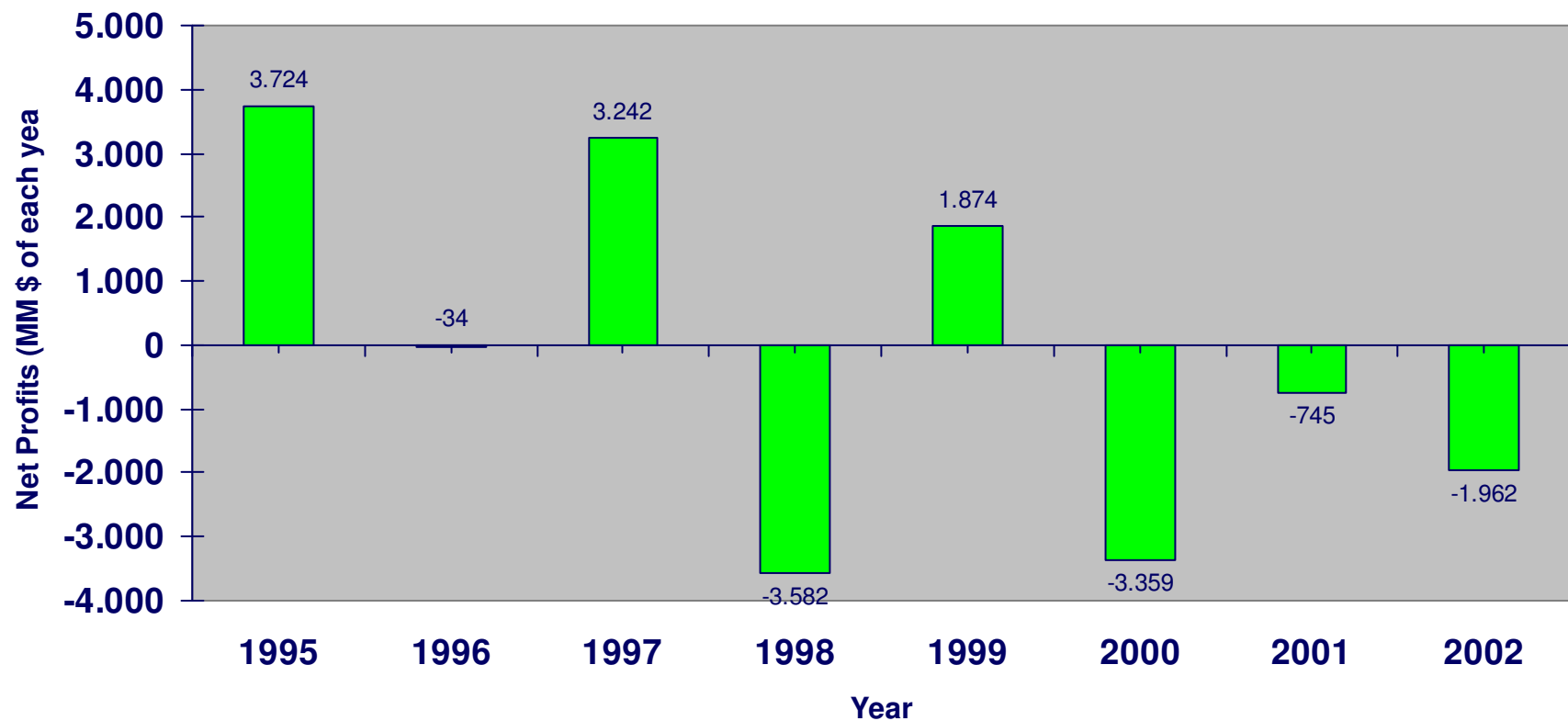
Assets and Number of Venture Capital Funds in Chile



# The Venture Capital Industry in Chile



Profits of the Venture Capital Funds in Chile



■ Net Profits (Million \$ of each year)

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## ✓ The Second Capital Market Reform

- ✓ The bill sent to congress aims to facilitate the financing of innovative projects developed by creative entrepreneurs, in order to encourage both private undertaking and future growth
- ✓ The goals can be accomplished by:
  - ✓ First: lowering transaction costs
  - ✓ Second: lowering the risk assumed by investors
  - ✓ Third: training people to operate in the venture capital industry

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## ✓ **The Second Capital Market Reform**

- ✓ Incentives to the development of the venture capital industry
  - ✓ State Guarantee System designed for institutional investors up to 2/3 of the investment in Venture Capital Funds
  - ✓ Assistance and Promotion for trainee programs
- ✓ Tax Incentives
  - ✓ Temporary exemption from the capital gains tax for venture capital companies

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## ✓ The Second Capital Market Reform

- ✓ Reduction of Transaction Costs
  - ✓ Creation of a more flexible new type of corporation
  - ✓ Strengthening of supervisory and control mechanisms, sanctions and coordination among regulators
  - ✓ Deepening Reforms on Corporate Governance
- ✓ New Pledge Regulation
  - ✓ Lowering costs for guarantees and collaterals



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