Investor Profile: Stratus VC III Investment Fund

New Ventures interviews fund manager Philippe Lisbona

A lone tree grows in the middle of Rua Direita, a street that cuts through the heart of Sao Paulo's bustling financial district. The small slice of nature stands in contrast to the surrounding urban landscape, layered with thick traffic and towering offices, including those of Stratus Investimentos, a prominent Brazilian commercial investment firm. "Sustainable investment is tricky," Philippe Lisbona points out. It's been a busy week for him and his colleague, Wagner Duduch. The two fund managers recently launched the Stratus VCIII fund for small, sustainable businesses, and are wrapping up multiple day-long meetings on potential deals.

"You have to know how to use the right language to attract investors," Lisbona comments. This is an understatement in a country where the investment environment is strong, but overall growth has lagged. Despite Brazil's recent shaky performance, Lisbona is confident that investing in green small and medium size enterprises (SMEs) is becoming a mainstream concept. Even in its short existence, VCIII has managed to attract traditional investors while pushing Brazil's emerging green sectors.

VCIII, in fact, was designed to appeal outside of the sustainable investment niche. Stratus analysts found that although there was a great deal of interest in sustainability, the fund would have to take a more sophisticated approach than simply investing in any green business that seemed worthwhile. Instead, Lisbona and Wagner understood that the best returns were coming from high growth sectors such as new materials, biofuels, and clean technology, in which companies have a strategic advantage because of Brazil's natural resources and timely support from government initiatives. These sectors were achieving growth rates in the double or even triple digits. The environmental impact of each potential investee is arbitraged with its financial information to create a holistic risk assessment that considers the company's market potential as well as its creativity in tackling environmental challenges. By screening for sophisticated businesses and focusing on sectors with high growth potential, Stratus ensures that it will generate deals with a diverse range of exit opportunities.

Despite the marketability of VCIII's target companies, Lisbona explains that small businesses often require more creative financing and risk mitigation strategies than larger companies. Accordingly, Stratus offers an array of investment tools for its portfolio, ranging from standard equity to long-term debt for smaller companies or carbon financing, depending on the specific needs of the enterprise. As a general risk mitigation strategy, VCIII extends a longer time horizon of five to seven years to allow for time to gain market positioning, establish themselves in the market, and produce strong returns before exit.

Lucrative deals in this sector also require greater involvement by fund managers, such as the technical assistance and advisory services Lisbona and Wagner offer the companies they work with. In other words, the returns can be extremely high, but these deals are made for investors that are, in Lisbona's words, "in it for the long haul."

For more information on the Stratus VCIII fund, visit http://www.stratusbr.com or view the web version of this profile at www.new-ventures.org.

Written by Kelly Desy and Derek Newberry, World Resources Institute ©2007 - The Rising Ventures Series features articles, announcements and profiles of investors and entrepreneurs related to the theme of innovative small and medium businesses (SMEs) in emerging markets that deliver social and/or environmental benefits. These businesses have been identified through the New Ventures (www.new-ventures.org) and Development through Enterprise (www.nextbillion.net) projects. To view other Features in the Series, visit http://www.new-ventures.org/risingventures.