

## CONVERSATIONS WITH MIKE MILKEN



### André Esteves

*Senior Partner, BTG Pactual*

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**Mike Milken:** André, thank you for joining me today. I look forward to talking to you about a number of things, not the least of which is your country, Brazil. Fifth-largest country in the world, geographically, and maybe someday in this century the fifth largest economy in the world, a country with significant potential. You as one, if not the leading financier in the country, we're really interested in your views. But I think the best place to start now is just about you, your background, your interests. Let's get our listeners a chance to learn a little bit about you.

**André Esteves:** Well, thank you very much, Mike. It's a pleasure being here too. I'm a mathematician by background. It started here at Banco Pactual as an intern in 1989, became a partner in 1993, and, since then have been working in this fantastic franchise, which is the largest investment bank based in emerging markets or in the Southern hemisphere. When I started here, my big dream was just to find a job. I just didn't know exactly what a financier was or what an investment bank did. What attracted me here honestly was the culture. It's a meritocratic environment, performance-based,

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teamwork-oriented. So this attracted me and gradually I became fascinated by the profession and I have the privilege of leading this amazing organization.

**I think you touched on something that's extremely important in that is mentoring. I know you've kept that culture of mentoring at the company. I've often over the last 50 years tried to explain to people that often the most important thing of a job is who is going to be your mentor. Who are you going to learn from? Who's going to watch out for you? Who's going to create those opportunities?**

What we look for when we hire someone is we try to find people that want, above everything else, to build something and be part of something that can transform the world, or at least the country that we live or that the countries that we do business. We have the privilege of helping companies moving to the next stage one day. You had also

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this profession, and I think it's quite the privilege to help finance people and to consolidate sectors, going public, do the next level of investments. And, that's a very interesting mission.

And, we look for young people who have a good background, ambitious in terms of what they want to build, that are capable of working a team. At the end of the day, BTG Pactual is a partnership. We are probably one of

the largest partnerships in the world, right? It's a \$7 billion equity company and has been managed it as a partnership since its foundation. I'm the senior partner, the company is public today, and it was an excellent exercise taking the company public in 2012, but keeping the partnership. The partners still own 7% of the company. And we hire people that start as interns, but one day will be partners.

**So, I had the honor of being able to finance more than 3,000 companies and, you know, it was interesting, I only had one CEO ever tell me he was in it for financial purposes. Most of the time they had a passion for an idea, something they wanted to achieve.**

**I'd like to go back to a period of time prior to you joining the firm. And that was this period of the 1980s with enormous volatility in currencies. And I held a conference with 200 business leaders from Latin America and 200 from the United States. And what I wanted them to understand is to succeed in Latin America, you had to be better than your counterparts in the United States. In many cases, these companies had financed**

**borrowing U.S. dollars and discovered for every \$1 they owned in the currency due to the devaluation of the Real, they now owned two and the amazing pressure that brings on. One of the things that's impressed me is the talent of business leaders, entrepreneurs in Brazil. How have you found the experience in creating the opportunities to bring capital to them? And is there an example of a few industries or companies that really bring this message home?**

I think you are right. Brazil is like the other big emerging markets, a volatile market, but on the other hand follows the dynamic of open society; open for entrepreneurs, capitalist society and, at this stage, one of the most vibrant capital markets in the world together with the U.S., China and India. So, a lot of entrepreneurs, a lot of startups and a lot of corporate activity – M&As, IPO's, follow-ons, long-term financing, high-yield – it's a small version of U.S.

So, we have number of very dynamic sectors: education, healthcare, finance, real estate. We are in the middle of another interesting cycle of commodities. Could be a supercycle or it could be just a recovery. Not easy to say. I'm more of an optimist; probably the truth is in the middle. So, we live in a good moment even though the pandemic has brought some challenges.

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But I agree with you, people here have the same drive of global entrepreneurs. They are passionate, have an idea of view, a dream. And the good news that we have enough development, capital markets for that. So you have all the alternatives that U.S. – and you were one of the creators of this – being used here, which is fantastic. So I do see in Brazil a healthy economy and it is trying to move to the next step, consolidate the sectors, create a new plant, make an acquisition, or just move up its governance. So I like very much the infrastructure, the regulation. We have the pre-conditions of doing something special.

**One of the great changes in the world over the last 20 to 30 years has been to lift people out of extreme poverty. Almost a billion people were lifted out of extreme poverty, almost a half a billion alone in China, and maybe quarter of a billion in India. But COVID today has pushed a number of people back into poverty. The recent Credit Suisse Global Wealth report that comes out annually, it shows in terms of a wealth index that of all countries with more than 20 million people, the United States now has the highest percentage of its population with a net worth over a million. But of all the developed countries, based on U.S. per capita income and wealth, you have almost 28% to 30% of the population in the United States with a net worth under \$10,000.**

So, an amazing increase in rich and poor that we're seeing play out around the world that we've been very focused on in the Milken Institute. Likewise, in Brazil, as you know well, almost a third of the population in Brazil could be defined as poor. And after COVID, maybe 20% of the population could be defined as very poor today in Brazil. And obviously the stability of any democracy is based on people feeling they have an opportunity.

I know one of the things you've been focused on is providing technology training to individuals so they can be upward mobile. Let's talk about these amazing opportunities

to uplift people, but the enormous challenge we have with a very large percentage of the population being poor in Brazil.

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“On the economic side of the pandemic, I think we did it right. We provided emergency aid for an extensive part of our population – around the 60 million people – which is a lot ... We did more on a relative basis than all the other countries and probably even in absolute terms, more than most countries.”

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You're right. I think in Brazil poverty is more important than inequality. I think we need to attack poverty, especially extreme poverty, which still here with us, even though we're moving up. And in a certain way, of course the pandemic, brought the additional challenge to that.

But, on the economic side of the pandemic, I think we did it right. We provided the emergency aid for an

extensive part of our population – around the 60 million people – which is a lot. And, of course it's a fiscal challenge, but we did more on a relative basis than all the other countries and probably even in absolute terms, more than most countries, including China or continental Europe, which I think was important.

Of course, it brings a macroeconomic challenge that you cannot try to fix structural problems with emergency measures. It would be a big mistake. If we cross a line of what we can afford, we will bring inflation, and this is the most unfair tax that you can impose to a society. So we did a nice economic package from the government side.

On the other hand, I think the pandemic brought or triggered an interesting moment in Brazilian philanthropy I think changes the scale of private-sector philanthropy. And honestly, I'm quite proud of what myself or my colleagues as business people have been doing to support the society. We started construction of a new technology-based university here in Brazil and named it in Inteli, which will be the Institute of Technology and Leadership. It's a totally philanthropic initiative sponsored by myself and my partners here at BTG, focused on teaching all sorts of careers related to technology like computer science, computer engineering, data science, and so on.

It's an important gap in terms of background. Our corporate sector needs coders, programmers, data scientists, and we need to help provide this kind of qualified labor force. But beyond teaching technology, the intention here, and that's why it's leadership in the name, is also teaching that you only create wealth if you work very hard, wake up very early in the morning, and don't need government for that. You need to do that, in any sort of development and need to be done on a sustainable basis, and you need to respect the rules and the fairness of the constitution. So that's what we are teaching in this new initiative, and together with these initiatives, I see, as I said, a number of other people here doing similar efforts. So, this is part of the private-sector answer to the challenge that we are living.

But I want to highlight something that worries me, not only in Brazil, but also globally, including U.S., which is a different sort of inequality that people don't talk very frequently. But maybe it's more important. It's the corporate inequality: the gap between these two layers of companies, those that have access to technology, to human capital, to governance, to capital, to financial capital, I think are in a completely different competitive position than small mom-and-pop shops that don't have conditions of competing with these new giants that we are creating. This worries me a lot, and it's not just a Brazilian issue, it's a global issue. The same in U.S. In other words, if you look the last 10 years of an S&P index, the performance is amazing. But if they had a mom-and-pop's index, the performance would be quite mediocre.

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**We looked at small and medium business in the United States, and in March, April, May of 2020, you had minority-owned businesses – African-Americans controlled 40% of them – go out of business in those 90 days. The real strength of a country are these small and medium businesses growing. Many of these that were restaurants or storefronts or retail stores have had to learn how to go online. And if you haven't been connected online, it's been a real challenge. I think the new university that you're setting up here should be a real benefit.**

**I want to go back to growing up in Rio, one of the most picturesque cities in the world. I've had a chance to spend time on the beaches there, but also go into some of the favelas that exist. How do we deal with these very extreme areas of poverty, not just giving them money to survive, but how do we reverse the cycle? I'm sure that with your focus here on solving the problems, not only of the world, but particularly of your own country through access to capital, what are some of the suggestions you might make and what could others around the world do to help?**

My early age in Rio and where I was raised, it was a tough life. I was a low-middle class family in a very difficult economic environment; hyperinflation, hyper devaluation, 100% of uncertainty. Brazil was re-democratizing itself, so it was not easy economically speaking. On the other hand, here was and still is a melting pot. The fact that you said you have these extremely poor communities, the favelas, in the middle of the city, sometimes in the center of a very elegant neighborhood. It's a very atypical; generally these kind of communities are on the periphery of the cities.

This has some has some positive side effects. Here is a melting point pot. Integrated. You mentioned the beaches. The beaches are the best example of democracy, right? You have

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the very poor, you have the very rich, at the same time on the same beach. And part of the culture of Rio is that they do that together. So, I had friends that I still have that came from extremely poor communities. And it's not only me. It's part of the culture and the society, which is a privilege being exposed to different realities.

Having said that, what we need to do to change the problem, first, we need to provide education to everybody. Acceptable, good-level, modern, future-driven education. So that's number one. Second, we need to provide some

healthcare in order to support these extremely poor communities. In Brazil, we have a public system that everybody here is proud of on this pandemic. I think, we've committed some mistakes in terms of not going for early vaccination, but we can mitigate the problem because we have a very good public infrastructure that can support the society in a moment like that. But we still need to do more.

And finally, you need to have growth in order to make the opportunities available for everybody. It's not difficult. We just need to copy what is right and avoid what is wrong. You have 100 years of early history to know exactly what works and what doesn't work. One of the key reasons Venezuela became Venezuela was that the elite left the country. I think that's a key difference of resilience. The elite live in [Brazil]. They fight for better policies, for improvement in education, healthcare, or politics. We have many challenges, but I don't see any other solution than going through education first to provide the same opportunities and qualify this population. Some interim support with universal health care. We need to have that. And finally we need to deliver growth in order to make sure that the opportunities really will exist.

Let's turn to health care for a moment. The front page of the Wall Street Journal on May 7th, 2021 tells us about India, South Africa, and Brazil, and that 16,566 people passed away last week from COVID. An annual rate of almost 850,000. We're going to be reaching a point in the United States of excess vaccine production. My guess is we'll have more than more vaccines created on an annual basis by the middle of this year than people that live on this planet. How do you see Brazil tackling this challenge, and what could others around the world do to help?

Yes. First, you highlighted awful statistics that unfortunately are the reality of the moment. I think we crossed this horrible peak a few weeks ago; the situation is improving here in Brazil. We committed a big mistake not anticipating the vaccination here. Even though that we have an excellent infrastructure to vaccinate people, we have fewer vaccines available than what we can provide to the society. I think this should be an excellent opportunity to have the U.S. show their leadership. But, I think there are very good ways of doing a vaccine policy that is

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constructive, not only for the U.S., but for the region, but also for the planet, because we are interconnected and you avoid mutations when you don't have these very strong or serious clusters of disease.

My view is that the U.S. is delayed in terms of moving that direction. It's clear that we have vaccines available. For example, Brazil made the proposal to U.S. to exchange some AstraZeneca that U.S. has available, but is not using. Brazil purchased, but arrived in three months. You just direct their AstraZeneca order and bring immediately the AstraZeneca vaccines to Brazil. It's 30 million doses of vaccines. That's a good example of an intelligent move that we should do. And honestly, Mike, we must do. So, as I said, we have the good vaccination infrastructure, but it doesn't help if you don't have the vaccines. If we have the necessary amounts of vaccines, we could do three or four million doses a day, which solves the problem in less than two months. So, that's where I am. I think we will move slowly. The situation is improving, but it's still very painful.

So, let's look to the future. I have been one of the real cheerleaders for Brazil over the past four to five decades. A country with enormous potential that has only begun to tap its own natural resources. Brazil is obviously one of the most important countries in the world from an agricultural standpoint. The other area that the world looks to Brazil for is the Amazon, and as some people talk about the lungs of our planet. The world has had conflicting stories about the Amazon. And so as a leader in Brazil, how do you see the country protecting the Amazon for the world, not just for Brazil, and the future?

I think we should take the Amazon protection with extreme responsibility. This should be part of our global responsibility. And, we should understand that the forest is a much more important for all of us alive than dead.

The good news is you mentioned that the fantastic agriculture in Brazil; very technological driven, very productive, probably one of the most productive in the world. And the good news is it doesn't need the Amazon. We have a number of degraded areas available for agriculture, and the technology that was developed internally can use these areas in a more productive way than to take the forest down. So there is a kind of a negative myth that involves a growth in agriculture means destroying the Amazon. One thing is not linked to the other.

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We have good environmental legislation here in Brazil. The question is the enforceability and the rhetoric about that. I think we didn't change the legislation. Amazon's not burning, but we changed the rhetoric a little bit in terms of the relevance of the forest, and I think it was a big mistake. Because it created some sensation that is not that wrong cutting these or that small part of the forest, which is illegal and continues to be illegal. And you have a federal police operation every week against

that. But we need to come with a stronger rhetoric that we not only will enforce the law, but we should be proud of this responsibility that for some reason came to us, preserving these, as you said, lungs of the world.

There are some new mechanisms and some finance innovations that I'm involved on this volunteer capital market with a number of sub-sectors, especially those of keep the forest alive and will help us in the next decade. So, it's a challenge. I can guarantee you, Mike, that the business leadership in Brazil is extremely worried with this topic. We can see that that is a mission that our companies, our businesses will be respected if we fight to make sure that Amazon will be there for the future generations. And we have the tools for doing that. We need to implement and continue to move ahead in this direction.

**You're on the board of Conservation International yourself. For much of the work that we've done in science and bioscience over the last 40 or 50 years, we often state that there's more biodiversity in a bucket of dirt in the Amazon than there is in many countries around the world. So, I think it's important. I don't believe you can go to a**

**Milken Institute event – whether it's in Singapore, Tokyo, Hong Kong, Shanghai, London, Abu Dhabi, wherever it is in the world – without ESG [Environment, Social, Governance] and these issues taking an important role. How do you see the rest of the world, not just Brazil, responding in this area?**

First, as you said, I'm a proud board member of Conservation International for more than 10 years. First, in Brazil we tried to implement a lot of things and we work part two of the key drivers of creating millions and millions of hectares of protected areas, which is amazing, right? I'm very proud of that. Just recently a group of Brazilian businessman created almost one million hectares of protected alliance in Pantanal, which is the Brazilian wetlands, as relevant as Amazon in terms of biodiversity. Very, very important to be preserved. I would say that a relevant part of the business community in Brazil globally understands the effort and the challenge that climate change brings to us.

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So, I do see a lot of developments globally speaking. In conservation, we dedicate enormous time to try to develop these financial instruments that can provide on a sustainable basis resources for these poor communities to keep their areas, their biodiversity untouched or being used in a sustainable way. And I like these market mechanisms like those that you pioneered in the eighties. I think this is growing a lot and, I'm bullish on that. So global community and global markets, I would say, are doing an enormous effort and have an enormous responsibility and role on that. So the ESG that became a must is still in the early stages of showing the impact in the society; new asset classes like impact investments, new markets, like the carbon markets, new brands like the whole ESG green bonds of funds, etc. All of these, I think in a couple of decades ahead of us, will bring significant consequence for the stage of the planet.

So I'm confident Mike that, all of these together, and we are not talking about governments – you have this society that created all these mechanisms that we discussed it here while you in Milken center, has been doing a lot of efforts also in this direction. So I like these market-oriented the instruments. So we issued in January green bonds for BTG, I love it. The financial world that moves capital to one side to the other, create these clusters that initially they were more segments, but more and more becoming mainstream. So as long as we continue this trend, I think we will addresses this big challenge that the planet has today.

Let's talk about all of South America. Obviously in the case of Venezuela, a country that was once rated AAA is now CCC, one of the richest countries in the world, the country with the largest proven reserves, has totally declined. Argentina to the south, Venezuela to the north, Bolivia to the west, there are numerous challenges in the development of these countries and in Central America. One of the things that's COVID has brought as we've discussed, is it's moved a number of people back into poverty or extreme poverty in these countries that had been moving into lower middle class. How do you see Brazil's role going forward?

Well Mike, first the Venezuelan crisis. I think this is a humanitarian crisis that is much bigger than people think. When you look at a Europe and the Syrian crisis, the huge immigration that created a number of political consequences in Europe; we are talking about four to five million people. When you look at Venezuela, already two million people have moved and another two million will move as soon as the COVID crisis reduces. You'll see huge immigration, which is more or less a human humanitarian crisis similar to Syria. But instead of very poor people arriving in countries like Germany,

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France, Spain, or Italy, they will arrive in countries like Peru, Bolivia, Brazil, Colombia and Chile, which multiplies the challenge.

So, it's a huge issue. And I think Brazil has big responsibilities, not because of being the largest country in the region or the largest economy in the region, but it's a humanitarian crisis. We need to deal with that. New deal in terms of observing these people, have right policies for them, and try to pressure Venezuela and respecting its autonomy. I would love to see democracy back in Venezuela.

Having said that, you also have some good examples like Chile, Peru, Colombia that are doing a very good job. And especially Chile has been a very well managed economy for now a number of decades, a solid political system, alternating power left and right, both sides responsible and committed to the society. So, through this social network, more transparent work, and available information to everybody, it will be clear it's much better living in Chile than in Venezuela. So it should follow the Chilean policies and not the Venezuelan policies. For Brazilian political leadership, it's so easy to see that as a bad example, and they should avoid this political cancer that is populism.

The best definition of populism is the one that lies to the people. Committing mistakes is part of the job, nothing wrong with that. People can commit mistakes. We always

commit mistakes doing our business. So I'm not worried about that. Lying I think we should not allow and should fight against. So we saw that cancer in a number of places in Latin America and it created a lot of pain for our societies. We should use these new instruments – modern education, more transparency, more connectivity – to avoid this kind of leadership. If we move with the right leadership I don't see why we should not perform much better than these bad examples that we discussed.

**I think in many ways we look at Brazil as one of the most important countries in the world to get it right, to get it right economically. With the severe decline in birth rates that we're seeing in Europe, the United States, China, Korea, Japan, and other places of the world, Latin America is one of the younger parts of the world today, along with sub-Saharan Africa. As you look at the rest of the world from Brazil, how does it look to you today?**

You are right. We have the obligation of doing it right. In the short term, we are having synchronized growth. I think the U.S. will surprise all of us with very strong growth in 2021. I think we'll be part of the sectors of good economic policies plus very aggressive monetary and fiscal expansion. Good in the short term that the U.S. can grow 6% to 7%.

I think all the key regions will also outperform. China the same, not necessarily because of vaccination, but they were very successful in mitigating the pandemic. So, we have the two largest economies doing quite well. And finally, Europe is ramping up in terms of vaccination. So we'll see synchronized growth and high commodity prices, which is good for emerging markets. So we have an interesting moment.

Culturally, I also think the same. I think we'll have a small version of the Roaring Twenties ahead of us; very, very similar, with people after all this isolation will need to be together to travel, to go to restaurants, to do things, and this will be constructive.

What we should not do is be too excessive in our response to the crisis. When I look at the U.S. from here, of course U.S. is the owner of the printer, so you can print dollars, which is a big privilege, but even this good privilege has its limits.

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And I think we are close or eventually we crossed a little bit of these limits. I'm worried about the levels of monetary expansion and fiscal expansion. I think we all are pushing the same direction at the same time in the most aggressive way possible in a moment that we already can see some light at the end of the tunnel. So, if we cross this line too much, I think we'll need to face a problem that had disappeared off our financial horizons, which

is inflation. And again, as I said in the beginning, regarding Brazil, but it's true globally, inflation is the most unfair tax possible. The very poor, they don't get protected from inflation and the very rich do quite well or even profit from that. I'm a very optimist short-term mid-term, but I'm worried if we are creating an issue ahead of us.

Well, obviously this almost a year and a half now with COVID has made the world much smaller and André, I just want to reiterate what important job you have in many ways. The success and growth of Brazil will redefine South America, not just looking at Chile, but what a large country can do, what a large young country that can do. I want to commend you on your efforts through Conservation International. And I also want to commend you for identifying one of the key areas for any country, and that's the education of all of its citizens.

One of the secrets of the United States is that between 1870 and 1960, the U.S. added one year of formal schooling per year for all of its citizens. And by 1960, the U.S. was the most educated country in the world by two years for its citizens. Since then, other countries have caught and passed the United States, but the push to educate all citizens in the period of time between 1870 and 1960 transformed the country. I think a significant push in Brazil and other places in the world will transform them also.

We also view Brazil as one of the most important components to the development of sub-Saharan Africa, where maybe 40% of the children in the world will be living at the end of the century. So you have a lot of responsibilities and we look forward to keep checking in with you to see how you're doing.

Mike, thank you very much. I also would like to congratulate you for your efforts and initiative in the Milken Institute, especially during the pandemic, how fast and decisive you moved all the centers to the direction of science. You have been involved for now more than a few decades, but it's very special. And it's these attitudes of people like us that will make the world a better for future generations. Congratulations on your effort, my friend.

Thank you. And I wish you and your entire family good health. All the best. And thank you for joining me today.