Constellation: Management Report 1Q12

Dear Investor,

After a year as difficult as the last one, it was gratifying to see our companies' 2011 results released during this first quarter. Despite all of the challenges faced by the emerging economies, especially in Brazil, our companies came out well. Brazil dealt with inflation, monetary tightening, infrastructure bottlenecks, currency appreciation (which put the local industry's competitiveness in check), amongst others. These local issues – coupled with the Euro zone crisis, high oil prices, skepticism towards Chinese growth sustainability and the US recovery (credit rating downgrade!) – were responsible for the weak stock performance of the majority of Brazilian public companies (the Ibovespa fell 26.95% last year in USD).

Due to our companies' loss in market value last year, it was critical to see how positive the reported 2011 results came out, notably amongst the operational and financial performances. Earnings ended up being as well as, or superior to, what we had projected. Our companies grew their EBITDA and earnings by 16.9% and 13.7% on average last year. We believe that this is the main reason for our fund's good performance in the first quarter of 2012, up 18.76%, despite our considerable cash position (now at 20%).

Not coincidentally, the two companies that mostly hurt our performance last year were those whose numbers came out weaker than what we had expected. We would like to point out that we divested from one of them throughout 2011, given the worse-than-expected competitive environment, as we realized that our thesis would not prove itself correct soon.

Choosing companies for what they are capable of delivering based on their corporate culture and competitive differentials is a strategy that continues to work. During a year of low GDP growth in Brazil, our companies' results demonstrated that generating value through stock picking in an emerging economy is possible and very much worth it. The following are a few examples, listed by contribution to the fund up until March:

▪ Kroton: margins expanded from 9% to 15%, with 11% revenue growth and 355% earnings growth; it became a market leader in Brazilian Distance Learning through its latest acquisition, and new student enrollment in the beginning of 2012 is 47% higher than during the same period last year (organically, boosted by education financing);

▪ Lopes: sales and earnings grew 28% and 13%, despite developers' challenging overall performance (developers are their main clients); its mortgage company, Credipronto, generated 112% more financing in 2011 than in 2010;

▪ Ecorodovias: its highway traffic flow increased 9.2% yoy, logistics terminals went from BRL 31 MM of revenue in 2010 to BRL 358 MM in 2011, it won a bid to operate a new highway and obtained a contract extension on one of its concessions, leading the company to generate 7% of the market value in cash;

▪ Aliansce: same store sales increased 11.1% and total sales 25%, with margins going from 67% to 71%; moreover, it will inaugurate 68,000m² of new shopping area (+20%) in 2012;

▪ Cetip: the amount of registered deals grew 30%, earnings increased 33% and cash generation represented 6% of the company's market value; and

▪ Abril Educação: new student enrollment in 2011 in their Learning System was 45% greater than in 2010 (+19%, organically), with margins expanding from 20% to 28% and a BRL 103 MM operating cash flow, representing 5% of its market value.

Because of the great challenges in the Brazilian economy, many of our companies suffered from inflationary pressures on salaries and suppliers. Yet most of them were able to maintain or expand margins, demonstrating the strength of their pricing power and how differentiated their competitive positioning really is.

Scenario and Exposure

We are now witnessing a very different macro-economic scenario in Brazil, compared to last year. At that time, the Central Bank increased interest rates – the greatest concern being inflation, and how it could hurt the long-term purchasing power of Brazilian consumers, notably the growing middle class.

Today, we are going through a phase of falling interest rates, with real rates reaching the lowest levels of the past 30 years. Although we are not completely convinced that last year's inflationary pressures have been fully overcome, we understand that interest rates should not be raised in the short-term.

Given this macro environment and how monetary authorities have been acting, a greater exposure to equities can be justified. Discount rates could fall further, leading investors to move to equities in search for yield. However, we have not reduced our discount rates and continue working with a return rate that we consider reasonable for investing in Brazilian companies. That is why our fund's cash position is relatively high at approximately 20%.

Inflation is a chronic issue in the Brazilian economy, leading to sudden changes in interest rates from time to time. Since we are long-term investors, we focus on companies that can weather through these inflationary pressures, while maintaining their profitability and taking advantage of the opportunities created by weaker competitors when possible.

Therefore, our exposure should be increased whenever we find companies in which we have a strong conviction regarding their operational performance, strategy, management quality and valuation. These days we find a lot of great companies in Brazil, not all of them at the right price. We continue to work hard to find new ideas, and patiently wait for better entry points. As a note, our team has already evaluated around 20 new cases this year alone; only one has been a significant addition to the fund.

Brief discussion on our investment in Aliansce Shopping Malls

We invested in Aliansce a little over one and a half years ago, in August of 2010. Since then, our thesis has been proven right and our conviction has only increased. The company's deal to increase its ownership in 5 shopping malls that it was already a partner and operator of, now with an almost 100% stake in those businesses, has led us to discuss this case in further detail. The deal represented an excellent strategic move; it also demonstrated important resource allocation, but with an increase in debt.

First of all, let's begin with an introduction on the Brazilian shopping mall market. The current level of shopping mall penetration in Brazil is very low. Although the annual expansion of gross leasable area from 2005 to 2010 was 8%, there are only 45m² per 1,000 habitants, compared to 105m² in Mexico and 2,210m² in the USA. Nevertheless, the combination of low organized retail penetration ("under-stored"), Brazilian middle class expansion and a resilient retail growth (sales increased 8.3% in real terms since 2005), will provide a great opportunity for good developers and shopping mall operators in Brazil.

Aliansce is the third major operator and shopping mall owner in the country, with a gross leasable area of 335,230m². The company currently has 15 shopping malls in its portfolio, 4 in construction and also administrates 8 third-party ones. The company has grown by developing new projects or expanding their existent shopping malls. Despite some isolated acquisitions, Aliansce has mainly allocated resources to the development of new assets or expansions (brownfields), especially in those Brazilian cities most exposed to the middle class growth.

Our studies have assured us that Aliansce's founder and current Chairman of the Board, Renato Rique, along with the team that he has built throughout the last 30 years in this industry, will make Aliansce one of the best shopping mall developers in Brazil.

With 53% of the company's shopping malls operating for less than 5 years, Aliansce has been able to deliver very strong same store sales (SSS). When considering the entire portfolio, last year SSS grew 11.1% compared to 2010; and 14.2% when looking at just shopping malls less than 5 years old.

When the company announced the acquisition of 8% of one of its best and oldest shopping malls (Iguatemi Salvador), while increasing its stake in 5 other malls, we knew these were well-targeted, strategic moves. The company is growing acquiring assets that it has developed and still manages, therefore fully understanding their potential. This acquisition increased the company's debt level to 4.4x net debt to EBITDA, which seems completely reasonable given the strong cash generation of the acquired assets.

That is not all. Considering only current projects under development (and those in advanced stages), the gross leasable area should grow 42% until 2013 (over the area including acquisitions). We also project NOI of BRL 400 MM in 2013, which is 75% greater than in 2011. Due to these projects, the company should grow more than its competitors, as it focuses on quality and execution within the budget. Aliansce is one of the best investment options in our universe.

Despite the excellent performance since we have invested (+45%) and the current valuation levels, we believe Aliansce will continue to be a great investment. We see a DCF upside superior to 30%, not considering additional unannounced expansion options. Besides that, as contracts are linked to inflation, Aliansce should trade with lower real cap rates than the current 10.3% for 2013.

We value your relationship and the trust you have placed in us by investing in Constellation. Our investor relations team is at your disposition to answer any further questions.

Sincerely,
The Constellation Team

Constellation Fund SPC Equities Class – Long Only

Fund Objective

The fund's objective is to provide sophisticated investors with superior risk-adjusted returns by investing in stocks at the Brazilian Stock market through a rigorous research driven "bottom-up" fundamental approach, while carefully attempting to control portfolio risk and transaction costs. The fund does not intend to track market indices and is generally invested 80% to 105% of the NAV. Leverage is rarely used and we attempt to avoid excessive concentration.

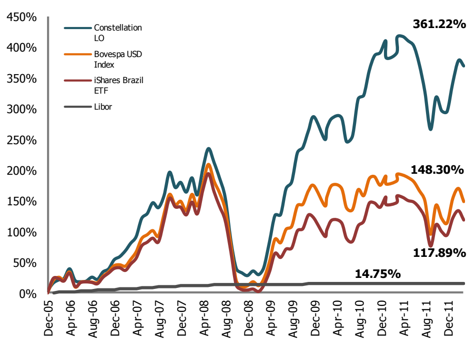
Share Appreciation (Net of all fees and audited by KPMG)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Since Incep.
2005												2.45%	2.45%	2.45%
2006	12.28%	4.59%	1.81%	12.98%	-13.71%	-1.74%	0.87%	5.37%	-2.81%	9.94%	3.77%	10.64%	49.33%	52.99%
2007	3.43%	6.07%	7.08%	6.20%	15.43%	3.71%	7.66%	-3.21%	8.31%	14.71%	-8.38%	3.03%	84.93%	182.90%
2008	-5.66%	8.81%	-9.70%	16.76%	10.62%	-6.76%	-8.13%	-13.70%	-27.40%	-24.95%	-5.06%	-3.36%	-55.75%	25.18%
2009	5.88%	-4.40%	9.14%	29.69%	23.55%	0.65%	18.58%	4.21%	16.85%	2.64%	8.23%	6.14%	203.31%	279.70%
2010	-9.52%	5.32%	4.32%	0.30%	-10.20%	2.60%	16.98%	1.52%	9.54%	5.25%	1.07%	3.91%	32.09%	401.54%
2011	-5.48%	1.73%	5.06%	0.36%	-1.39%	-1.62%	-5.92%	-9.51%	-14.43%	14.36%	-5.27%	-0.24%	-22.57%	288.34%
2012	11.85%	8.14%	-1.81%										18.76%	361.22%

Sector Exposure (Delta Adjusted)

Sector	% Long NAV
Education	16.92%
Financials	10.02%
Services	8.30%
Infrastructure	7.63%
Consumer Discretionary	7.23%
Consumer Staples	6.33%
Others	5.67%
Metals & Mining	5.01%
Utilities	4.07%
Healthcare	4.03%
Homebuilders	2.96%
Energy	1.90%
Industrials	0.83%
Ibov/Options	-0.36%
Total	**80.53%**

Constellation (net of fees) *vs.* Ibovespa *vs.* ETF



Number of Positions

Stocks	21
Investment Cases	16

Value per share (net of all fees)

As of March 30th, 2012	**519.4413**

Stock´s Sector Contribution

Outperformers	**% NAV**
Education	1.27%
Infrastructure	0.96%
Consumer Discretionary	0.59%
Underperformers	**% NAV**
Healthcare	-0.46%
Financials	-0.28%
Financials	-0.28%

Overall strategy liquidity (1/3 of Average Daily Traded Volume)

Tenor	
1 Day	33.3%
1 Week	56.5%
1 Month	79.9%

Market Capitalization

>US$10 bn	22.4%
>US$ 1bn and <US$10bn	52.7%
<US$1 bn	5.4%
Total Equity Exposure	**80.5%**

Main Characteristics

Inception Date*:	November 30, 2005
Initial Investment:	US$ 100,000
Subsequent Investment:	US$ 50,000
Subscriptions:	Last Business Day of the month.
Redemptions:	Monthly with 3 months prior notice.
Payments:	Three business days after the redemption day.
Advisory Fee:	1.0% per annum.
Incentive Allocation:	10% of the profit paid annually or upon redemption.
Net Asset Value:	Daily net of advisory fee.
AUM per Strategy:	US$ 623,081,590

* Equities Class

Risk x Return Profile (since inception - gross of performance fee)

Last 12 Months	-8.97%
Annualized Return	31.54%
Annualized Ibovespa USD Return	15.10%
Annualized Standard Deviation	35.87%
Ibovespa USD Annualized Standard Deviation	42.80%
# of Positive Months	50
# of Negative Months	26
Best Monthly Return	29.69%
Worst Monthly Return	-27.40%
ISIN:	KYG238261112

* Risk free rate is T-Bill 90 return.