# Constellation: Management Report 1Q13

| Long Only Performance | Fund | Ibovespa in USD |
|---|---|---|
| YTD: | + 4.00% | - 6.46% |
| Last 12 months: | + 9.06% | - 21.05% |
| Annualized Return since inception: | + 24.40% | + 9.13% |

| Long Short Performance | Fund |
|---|---|
| YTD: | + 2.59% |
| Last 12 months: | + 4.31% |
| Annualized Return since inception: | + 10.17% |

Dear Investor,

As we think of ourselves as owners of businesses and aim at the long-term when investing, it is hard to try to justify what happens to capital markets in short periods of time such as one quarter. Even harder in Brazil, where flows and macroeconomic external factors can have a significant impact. In this last quarter discussions about the companies many times led to issues not related to the companies themselves. As investors are expecting timid GDP growth numbers, the Ibovespa was down 6.46% in USD in the last 3 months.

We can say that those who invest in Brazilian equities have gradually become more cautious (reflected in the Brazilian markets' poor performance – Ibovespa was down 29.4% in the last 3 years) due to a lower growth trend that started in 2011. GDP figures have been coming out lower than the historical 10-year average: in 2012 Brazil grew 0.9% vs. last 10-year average of 3.6%. Higher middle class indebtness, lower competitiveness in several segments, wage increases above inflation and excessive Government intervention (resulting in lower investments) are among the aspects that contributed to this weaker growth period.

We believe these are cyclical conditions that affect economies from time to time. As a global economic recovery is yet uncertain, these conditions have been influencing investors' behavior with stock prices fluctuating drastically. When investors choose to send part of their wealth to an emerging economy, they already expect a distinctive and sustainable growth. However, this may not be true in certain short-term windows. This is why our mandate, to invest for the long-run in companies with specific differentials, allows us to navigate through these uncertain moments with minor anxiety and apprehension.

This adverse macroeconomic environment makes it more difficult to invest in Brazilian companies, as investors cannot count on tailwinds supported by a generalized expansion in demand and credit. It is more difficult to invest, with a lower market beta. But, on the other hand, opportunities to patient investors come along with it – investors, like us, who are investing in companies based in their specific advantages instead of expecting good news flow.

We acknowledge that the Brazilian economy does face important challenges that can create difficulties to invest, but we continue to find investment opportunities that can compound our clients' capital at attractive rates. We invest in companies with strong competitive advantages and avoid those which are threatened by competition in sectors with lower growth. In fact, most of our companies have consistently gained market share even in this adverse low-growth scenario. In other cases, our companies are in growing markets where there is a latent pent-up demand, as in the case of our Education companies (Abril and Kroton – each one in their segment), that continue to grow faster than their peers.

The message here is that, even though the bottom of the growth cycle seems to be behind us, the thesis for our investments in the companies does not rely on any relevant macro drive. We continue to search for companies that, regardless of their market cap (large, mid or small), have the conditions we are looking for: quality, sustainable demand for their products and services, differentiated management aligned with our objectives, strong competitive advantages, and an entry point that can compound our clients' money at attractive rates.

As for performance, the Long Only fund was up 4.00% and the Long Short +2.59% in the last quarter, compared to –6.46% from the Ibovespa in USD. In the last 12 months, our funds were up 9.06% (Long Only) and 4.31% (Long Short) vs. –21.05% for the index. The largest contributors to our performance in the first quarter were Kroton, Cosan and Abril Educação; and the detractors were Vale, Retail companies and Exchanges.

**2012 companies' results and what we expect for 2013**

As we are discussing how different it is to invest in some particular assets instead of counting on a growth tailwind, it is worth spending some time on the results delivered by our main positions. Given that 2012 was not a benchmark year for Brazilian GDP growth, we would like to highlight what some of the companies we invest in have proudly accomplished and what we expect for this year.

**Kroton Educacional**

In 2012, Kroton's revenues grew 85%, mostly due to acquisitions. But even considering only organic expansion, the number was pretty impressive: 29% revenue growth. Besides that, and as expected, the company continues to gain operational efficiency, reaching a gross margin of 44.8% in 1Q13, an expansion of 11.4 percentage points when compared to the previous year.

As a result, earnings per share grew 120%, with an EBITDA margin of 27% in 2012 (from 15% in 2011).

For the first half of 2013, Kroton has already announced how students' enrollment came out: a 21% organic growth, bringing the company's students base to over 500 thousand to start the year. This strong number, together with efficiency gain impacts and the deleveraging made possible by a strong cash generation, sustain an expected 35% EBITDA growth and 47% earnings growth for this year.

All this is considering Kroton exclusively. However, this month the company announced the acquisition of its largest competitor, Anhanguera. A company also focused on the post-secondary education, with 400 thousand students both in on-ground as well as in distance learning. The deal was a share swap and the management of the combined entity stays with Kroton and its CEO, Rodrigo Galindo.

We believe that Kroton's culture, characterized by having efficient management focusing on students' development, was key to the company's success (now the largest and most profitable Education company in the country) and should extract tremendous value from this acquisition. Both companies complement each other in terms of regional presence: they are competitors in only 4 out of 85 cities they have presence on.

With the acquisition, Kroton, which already was the largest Education company in terms of market cap, will be even bigger – with more than 1 million students spread out through all Brazilian states. The company will be capable of extracting even more value from significant gains of scale; being the leader in the main cities it is present, both in distance learning as well as in on-ground.

**Cosan**

2012 was a good year for Cosan: several strategic decisions made in the last few years are now showing how right they were and contributed to the company's strong results. Considering all of Cosan's business units we saw an EBITDA growth of 46%, including all acquisitions, and 23% organically. In terms of net earnings, the company was able to deliver an outstanding 70% growth.

This is a great example of how a well-managed company can create value even in a low-growth environment. Here are a few examples: (i) operational efficiency increase in the Fuel Distribution segment (a market where growth was very shy) was a result of excellence in management together with synergies extracted from the Shell and Esso assets combination – operational margin came out very strong at USD 39 per m³ sold, a 27% expansion yoy; and (ii) growth in Cosan’s logistics operation (Rumo) delivering an impressive USD 175 mm annualized EBITDA, from a simple start-up just 4 years ago.

For 2013 we expect Cosan to have an organic EBITDA growth of around 18% (USD 2.1 bn), and 40% earnings per share growth. These numbers make us even more comfortable with the investment and confirm our expectations for the company.

**Abril Educação**

Regarding results, the highlight of this company focused on K-12 education was related to its Learning Systems. Revenues in this segment grew 25% compared to the same period of last year (disregarding acquisitions of MAXI and GEO). Considering acquisitions, revenues grew 40% reaching USD 105 mm, becoming larger stake of the overall company’s revenues. In 2012, 24% of Abril’s revenues came from Leaning Systems (20% in 2011). Another business line that has been bringing strong results is related to their own schools from “Grupo pH”, with a 25% growth in revenues.

As for 2013, we are spending a lot of time in monitoring the integration with the recently-acquired foreign language teaching unit (“Wise up”). Given Abril’s excellent integration track record and its ability to grow new business units in its platform, we believe the company should deliver solid results, with earnings growth close to 15%.

**Aliansce Shopping Centers**

Even though 2012 was a tough year for several retail companies in Brazil, Aliansce delivered strong results, proving that the company got it right by developing malls in regions that lack the presence of a quality retail structure. The company managed to achieve Same-Store-Sales growth above 10% for the third consecutive year (11.2% in 2012).

Besides, even with several new malls and expansions throughout the year, Aliansce, in 2012, still succeeded in achieving an excellent occupancy rate of over 97%. In terms of financial results, the company grew operational earnings by 35% with a USD 150 mm cash generation, equivalent to 8.3% of its market cap. All that in a year with significant expansions; Aliansce grew its total gross leasable area 44%, reaching 440 thousand m2.

Looking forward, we believe good results will keep coming from Aliansce. We consider that its malls’ Same-Store-Sales should somehow decelerate, which is expected and pretty reasonable after 13 consecutive quarters of above 10% yoy growth. However, the company should renegotiate its rents at rates above 10% for the next 2 years, given that several malls, launched in the last 5 years, should be at rates’ revision period. Aliansce should get attractive rates as it has a strong bargain power: its malls have performed very well enabling the company to offer a low average occupancy cost to its clients. This is why we expect a 42% EBITDA expansion and, with the deleveraging effect, its FFO (operational earnings) should grow 84% in 2013.

On top of these companies just discussed, we would like to point out that we also expect distinctive performances coming from the vast majority of the companies in our portfolio.

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

Sincerely,

**Constellation Team**

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Constellation
ASSET MANAGEMENT

# 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.

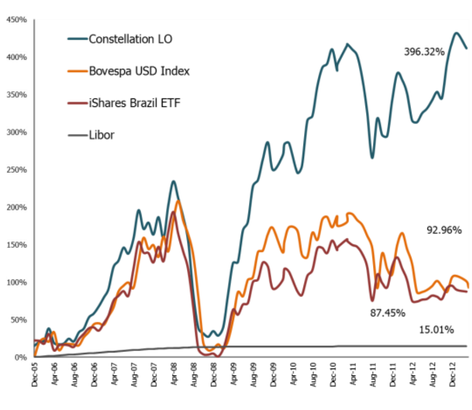
## Share Appreciation (Net of all fees and audited by KPMG)

| | 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% | 82.52% | 179.22% |
| 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% | 23.55% |
| 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% | 274.75% |
| 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% | 395.01% |
| 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% | 283.28% |
| 2012 | 11.85% | 8.14% | -1.81% | -3.72% | -7.99% | -0.62% | 2.85% | 1.50% | 2.50% | 2.61% | -1.82% | 10.47% | 24.53% | 377.23% |
| 2013 | 5.52% | 2.44% | -3.79% | | | | | | | | | | 4.00% | 396.32% |

### Exposure (Delta Adjusted)

| Sector | % Long NAV |
|---|---|
| Education | 20.82% |
| Financials | 17.45% |
| Services | 15.02% |
| Metals & Mining | 10.30% |
| Sugar & ethanol | 9.09% |
| Utilities | 8.91% |
| Infrastructure | 6.23% |
| Consumer staples | 5.28% |
| Consumer discretionary | 4.15% |
| Homebuilders | 2.81% |
| Industrials | 1.09% |
| Healthcare | 0.07% |
| Ibov/Options | -1.38% |
| **Total** | **99.84%** |
| Exposure to the BRL | 99.50% |

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




### Number of Positions

| | |
|---|---|
| Stocks | 27 |

### Value per Share (net of all fees)

| | |
|---|---|
| As of March 28th , 2013 | **566.4791** |

### Sector Attribution

| **Outperformers** | **% NAV** |
|---|---|
| Financials | 0.51% |
| Utilities | 0.12% |
| Infrastructure | 0.10% |
| **Underperformers** | **% NAV** |
| Metals & Mining | -0.94% |
| Homebuilders | -0.51% |
| Consumer Discretionary | -0.39% |

### Overall Strategy Liquidity (1/3 of Average Daily Traded Volume)

| **Tenor** | |
|---|---|
| 1 Day | 29.8% |
| 1 Week | 58.0% |
| 1 Month | 90.7% |

### Market Capitalization

| | |
|---|---|
| >US$10 bn | 25.2% |
| >US$ 1 bn and <US$10 bn | 69.6% |
| <US$1 bn | 4.9% |
| **Total Equity Exposure** | **99.8%** |

### 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: | Available series: 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 of the Strategy: | US$ 871,385,925 |

### Risk x Return Profile (Since Inception – Net of all Fees)

| | |
|---|---|
| Annualized Return | 24.40% |
| Annualized Ibovespa USD Return | 9.13% |
| Annualized Standard Deviation | 33.90% |
| Ibovespa USD Annualized Standard Deviation | 48.70% |
| # of Positive Months | 57 |
| # of Negative Months | 31 |
| Best Monthly Return | 29.69% |
| Worst Monthly Return | -27.40% |
| ISIN: | KYG238261112 |

# Constellation Fund SPC Class B - Long Short

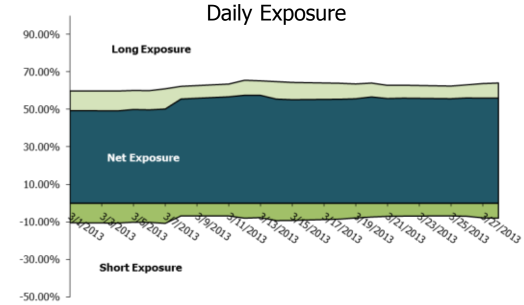
## Fund Objective

The fund's objective is to provide sophisticated investors with superior risk-adjusted returns in any market environment. To achieve the objective, the fund employs a classic long/short equity strategy by investing in stocks at the Brazilian Stock Exchange, while carefully attempting to control portfolio risk and transaction costs. Our stock selection is based on rigorous research driven "bottom-up" fundamental analysis.

## Share Appreciation net of all fees (* Performance of Long Short Class A until Nov 04, Class B onwards.)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | YTD | Since Incep. |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 2002 * | | | | | | | | | | | | 2.27% | 2.27% | 2.3% |
| 2003 * | 0.97% | 1.00% | 1.11% | 1.65% | -0.29% | 0.68% | 0.25% | 3.10% | 2.92% | 1.45% | 4.71% | 1.60% | 20.81% | 23.6% |
| 2004 * | 3.52% | 0.22% | 0.26% | -1.99% | -0.79% | 0.58% | 0.68% | 3.38% | 2.70% | 0.67% | -0.09% | 8.37% | 18.52% | 46.4% |
| 2005 | 6.13% | 4.90% | -3.81% | -2.86% | 0.50% | 1.15% | -1.49% | 1.26% | 9.20% | -2.11% | 4.48% | 2.51% | 20.76% | 76.8% |
| 2006 | 6.61% | 1.20% | -0.38% | 8.68% | -3.72% | -1.03% | 0.57% | 3.67% | -1.85% | 0.89% | 0.53% | 3.42% | 19.46% | 111.2% |
| 2007 | 0.85% | 3.13% | 2.76% | 0.87% | 5.00% | -0.28% | 2.90% | -2.10% | 2.54% | 3.43% | -4.58% | 2.70% | 18.18% | 149.6% |
| 2008 | -1.77% | -0.57% | -3.92% | 1.47% | 2.45% | -2.11% | -2.67% | -4.32% | -5.36% | -7.55% | -1.10% | -2.39% | -24.88% | 87.5% |
| 2009 | -0.15% | -1.01% | 2.03% | 3.69% | 4.19% | 0.32% | 6.20% | 1.11% | 7.73% | 2.45% | 2.34% | 2.40% | 35.75% | 154.5% |
| 2010 | -2.83% | 1.74% | 0.93% | -0.04% | -3.60% | 0.75% | 6.23% | 0.95% | 3.23% | 1.35% | 0.75% | 1.12% | 10.74% | 181.9% |
| 2011 | -1.56% | 0.03% | 1.78% | -0.19% | -0.94% | -2.22% | -2.08% | -3.28% | -3.82% | 1.66% | -1.61% | -0.54% | -12.19% | 147.52% |
| 2012 | 3.12% | 2.66% | -0.62% | -2.03% | -2.57% | -0.59% | 2.33% | 0.01% | 0.58% | 0.86% | -2.46% | 5.80% | 6.96% | 164.75% |
| 2013 | 3.04% | 1.87% | -2.26% | | | | | | | | | | 2.59% | 171.61% |

### Daily Exposure




### Total Portfolio P/L (Gross of Performance Fee)

| | Jan13 | Feb13 | Mar13 | 2013 |
|---|---|---|---|---|
| Longs | 1.97% | 1.54% | (0.81)% | 2.70% |
| Shorts | (0.13)% | 0.18% | 0.02% | 0.07% |
| FX/FX Options/Fixed Income | 1.49% | 0.15% | (1.27)% | 0.35% |
| Equity /Index Options | (0.12)% | 0.18% | (0.03)% | 0.03% |
| Others Expenses | (0.17)% | (0.18)% | (0.17)% | (0.52)% |
| Total | 3.04% | 1.87% | (2.26)% | 2.59% |

### Sector Exposure (Delta Adjusted)

| Sector | Long | Short | Gross | Net |
|---|---|---|---|---|
| Financials | 12.2% | 0.0% | 12.2% | 12.2% |
| Education | 11.6% | 0.0% | 11.6% | 11.6% |
| Services | 7.9% | 0.0% | 7.9% | 7.9% |
| Utilities | 6.5% | -0.7% | 7.2% | 5.8% |
| Sugar & Ethanol | 5.2% | 0.0% | 5.2% | 5.2% |
| Metals & Mining | 5.0% | 0.0% | 5.0% | 5.0% |
| Consumer Discretionary | 4.8% | 0.0% | 4.8% | 4.8% |
| Consumer Staples | 4.3% | 0.0% | 4.3% | 4.3% |
| Infrastructure | 3.1% | 0.0% | 3.1% | 3.1% |
| Industrials | 0.6% | 0.0% | 0.6% | 0.6% |
| Homebuilders | 2.5% | -3.3% | 5.8% | -0.8% |
| Healthcare | 0.4% | -3.0% | 3.4% | -2.6% |
| ETFs/IBOV/ Options | 0.0% | -1.0% | 1.0% | -1.0% |
| **Total** | **64.05%** | **-8.02%** | **72.07%** | **56.03%** |
| Exposure to the BRL | | | | 57.5% |

### Number of Equity Positions

| | |
|---|---|
| Long | 29 |
| Short | 4 |

### Value per Share (Net of all Fees)

| | |
|---|---|
| As of March 28th, 2013 | **227.4047** |

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

| Tenor | Long | Short |
|---|---|---|
| 1 Day | 76.8% | 88.0% |
| 1 Week | 97.1% | 100.0% |
| 1 Month | 100.0% | 100.0% |

### Market Capitalization

| | Long | Short |
|---|---|---|
| >US$10 bn | 15.7% | -1.0% |
| >US$ 1 bn and <US$10 bn | 45.8% | -7.0% |
| <US$1 bn | 2.6% | 0.0% |
| **Total Equity Exposure** | **64.0%** | **-8.0%** |

### Main Characteristics

| | |
|---|---|
| Inception Date*: | November 30, 2004. |
| Initial Investment: | US$100,000 |
| Subsequent Investment: | US$50,000 |
| Subscriptions: | Last Business Day of the month. |
| Redemptions: | Available series: monthly with 3 months prior notice. |
| Payments: | 3 business days after the redemption day. |
| Advisory Fee: | 2.0% per annum. |
| Performance Fee: | 20% of the profit paid annually or upon redemption. |
| Net Asset Value: | Daily net of advisory fee. |
| AUM of the Strategy: | US$ 164,623,682 |

### Risk x Return Profile** (Since Inception – Net of all Fees)

| | |
|---|---|
| Annualized Return | 10.17% |
| Annualized Standard Deviation | 10.40% |
| Sharpe Ratio* | 0.81% |
| # of Positive Months | 59 |
| # of Negative Months | 41 |
| Best Monthly Return | 11.14% |
| Worst Monthly Return | -7.55% |
| ISIN: | KYG238261039 |

* Annualized T-Bill 90 daily return.