Constellation: Management Report 1Q15

Long Only Performance	Fund	Ibovespa in USD
YTD:	- 16.87%	- 15.49%
Last 12 months:	- 24.21%	- 28.20%
Annualized Return since inception:	+ 13.25%	+ 0.88%

Long Short Performance	Fund
YTD:	- 5.02%
Last 12 months:	- 7.80%
Annualized Return since inception:	+ 7.01%

Dear Investor,

The first quarter proved to be challenging not only for Constellation but for the whole Brazilian market. In the first three months of the year our Long Only fund was down -16.9%, compared to -15.5% for the Ibovespa. In local currency (BRL) the Long Only strategy was actually up +0.5% and the Ibovespa +2.3%. The big detractor was the BRL, which depreciated 21% against the USD, in tandem with all major world currencies.

The positive performance of the Brazilian equity market may seem surprising to most investors, given all the bad news coming from the country. The truth is that most of the times the bad news has already been priced in and investors are more concerned with the future outlook for the economy and companies. In this regard, a new economic team with a new economic plan is providing some hope in a whirlpool of political scandals and deteriorating economic indicators. From the companies' perspective, although there is little to celebrate, the silver lining is that the strong will get stronger, as they do most of the times.

Let's start with the Brazilian economy. The widely knowns are: in 2015 GDP should contract between 1% and 1.5%, inflation will be above 7%, unemployment will rise, the economic and political implications of Petrobrás' corruption scandal could be much worse than expected and president Dilma's support in Congress is weak. On a related note, I was talking to a good friend (Rodrigo Azevedo, former director of the Central Bank and currently partner at Ibiuna) and he asked me what a typical IMF pro-market plan would look like. It would be something like:

1st: Start with an austerity plan, to increase revenues and cut government expenses.

2nd: Balance of payments deficits reduction through currency devaluation, which also adds some boost to the economy through higher exports.

3rd: Micro-reforms to increase productivity. Raise the price of public services, to reduce the burden of subsidies.

4th: Temporarily raise interest rates to prevent higher inflation.

5th: Implement macro reforms (privatizations i.e.) and finally, try to address the mother of all issues, Social Security.

At the end of day, he asked me, isn't this exactly what Joaquim Levy, a liberal "Chicago boy", is trying to do? It definitely is, but the big unknown is whether he will be able to push these reforms through Congress and how much they will impact economic activity. We acknowledge that 2015 will be a painful year but if Levy gets maybe 80% of his job done, long interest rates may start falling and growth expectations for 2016 may improve. Moreover, the fear of an imminent downgrade of Brazilian debt has been dissipated for now. On the other hand, one should not forget the risks of Petrobrás and its supplier chain imbroglio. Petrobrás balance sheet is very fragile and the company will very likely need new equity. The Petrobrás issue ads urgency and risk to the current scenario.

There is one silver lining, having a leftist government pushing a painful and liberal (in the Austrian sense of the word) economic plan is an encouraging sign of the power of an Open Society. This we believe is what differentiates Brazil from other countries in Latin America, like Venezuela for example.

From an equity investor's perspective, the Brazilian market (Ibovespa) is down more than 55% in USD since 2012, is currently unfashionable and an underweight in most global portfolios. P/E multiples are on average close to the historical lows and small-caps have been decimated. Talking to investors in the U.S. and Europe, differently from what they tell us about most other EMs, they almost want Brazil to get its act together. The Brazilian market is liquid and most investors acknowledge the competitive advantages of the big local companies and trust their management. In a world of low interest rates and high multiples in the United States, India and Mexico (very fashionable markets) global investors need new investable alternatives. Brazil may be an interesting alternative to generate Alpha. We'll know this in the next few months. It is going to be an uncertain and volatile path, and it again depends on how successful minister Levy will be.

The underperformance of the Constellation Long Only fund was mostly due to losses in our post-secondary education investment. The big news was the change in the FIES (government student loan program) implemented in the last days of 2014. The thesis for investing in education is: (1) K-12 education and an undergraduate degree is probably the best way for one to move forward in life, personally and professionally, (2) Brazil needs to improve productivity of the workforce and (3) the pent up demand for undergraduate degrees is significant. Our main investment in the sector has always been, and still is Kroton.

With the aforementioned fiscal adjustment, the Brazilian government reduced the budget available for student loans. It is still not clear by how much, but a 65% cut this year is a fair guess. Kroton's earnings growth will definitely be impacted in the next three years, but the company is working on alternative sources of funding for its students.

We foresee an attractive return for our investment in Kroton shares. The company not only is the biggest/ strongest, but also best managed and offers the best quality product to its students among the big players. We made more than 8x times our money in the stock in 4 years. We expect it to be a very, very decent compounder in the years to come.

Finally, moving to companies in general, the current economic challenges Brazil is facing are not unique and this is probably the "crisis" number 14, that we at Constellation lived through in the last 30 years. There is one common characteristic though, in all of these crises the strong companies got out stronger, with higher market share and margins. Times of market and economic turmoil have proven to be times of outstanding opportunity to add to high quality companies. We chose 3 interesting examples:

1) **Ambev** managed to deliver robust results even in 2009, when Brazilian GDP was negative. Throughout periods of weak economic activity, Ambev's execution gap vs. competitors became even more evident, and in 2010 the company reached its highest market share in Brazil, with strong pricing and 33% EPS growth.

	2008	2009	2010
Real GDP growth	5.2%	-0.3%	7.5%

Ambev's performance

	2008	2009	2010
Revenues growth	8%	11%	17.2%
		+12%	+33%
Earnings (BRL MM)	5,178	5,789	7,712
		+2.7p.p.	
Market share – Brazil Beer	67.5%	68.8%	70.1%

2) **Bradesco**. The banking industry was hit hard by the 2009's recession; credit growth decelerated and NPLs increased significantly. However, this represented an important test to Bradesco, and the company passed it with flying colors: return on equity (ROE) remained above 20%. When economic activity rebounded in 2010, the bank was well positioned to outperform the industry in the most relevant indicators, delivering 29% EPS growth and an even higher spread between ROE over CDI.

	2008	2009	2010
Real GDP growth	5.2%	-0.3%	7.5%

Bradesco's performance

	2008	2009	2010
Net interest income growth	18%	3.4%	33.3%
		-0.5%	+29.2%
Earnings (BRL MM)	7,625	7,586	9,803
Return on equity (ROE)	23.8%	20.3%	22.2%
		+1.4p.p.	
Δ (ROE – CDI)	10.7%	10.1%	12.1%

3) **Lojas Renner** (apparel retailer) and the overall apparel industry suffered from 2009's recession and very low consumer confidence. Same-store-sales decelerated and were below inflation for the first time in 4 years; non performing loans increased and the ebitda margin contracted. Renner however still delivered EPS growth. During the recession, Renner maintained its focus on execution and operational efficiency. When growth rebounded in 2010, Renner did not only gain market share, but also had material margin expansion and earnings growth, delivering a strong 30% ROIC.

	2008	2009	2010
Real GDP growth	5.2%	-0.3%	7.5%

Lojas Renner's performance

	2008	2009	2010
Revenues growth	10.4%	7.7%	15.9%
Same-Store-Sales (SSS)	2.7%	1.4%	10.3%
	+19%		+57%
Earnings (BRL MM)	174	207	325
		+11p.p.	
Return on invested capital (ROIC)	19%	20%	30%

In the table below one can see more examples of market share gains after times of economic turmoil.

Selected Companies	Mkt share 2007	Mkt share today	Δ
Embraer (Commercial aviation)	44%	71%	+27%
Brasil Seguridade	7%	23%	+16%
Top 4 Banks	54%	69%	+15%
Localiza	19%	32%	+13%
Kroton (Student base)	0.3%	13%	+13%
Cosan (Fuel distribution)	14%	19%	+5%
Abril Educação (Learning systems)	14%*	19%	+5%
Cielo	50%	54%	+4%

We added 3 new positions to our portfolio this quarter, companies we had already invested in the past and that we admire. Lojas Renner (LREN3) is the leader in apparel retail in Brazil, with revenue and earnings per share growth CAGR of 17% in the last 5 years. It has one of the strongest balance sheets in the industry and should gain market share over less capitalized and not hedged (USD and cotton prices) competitors.

Another addition was Equatorial (EQTL3), one of the best managed power companies in Brazil with very interesting growth opportunities and a strong execution in Celpa’s (subsidiary) turnaround. Brasil Seguridade (BBSE3) was also added. BBSE is the insurance holding company of Banco do Brasil, which has the largest banking distribution channel in the country, granting material customer captivity, especially with individuals. This channel is highly profitable for insurance products. Consolidated return on equity has been in the 45/50% range. Brokerage represents 40% of Brasil Seguridades's earnings; it is an asset light business which explains part of the company's outstanding returns. We understand that the combination of the strongest distribution channel in Brazil with low penetration of insurance products should consistently result in high returns in the near future.

Finally, we have many reasons to be confident that our commitment to high quality research and aligned client base will lead to above average returns in the long term for our investors. The current environment is challenging, but not unique. Opportunities are found when there is uncertainty. Disciplined companies with engaged and hard-working teams will be stronger in the years to come. This is true for our business and companies in general.

On another note, 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 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.

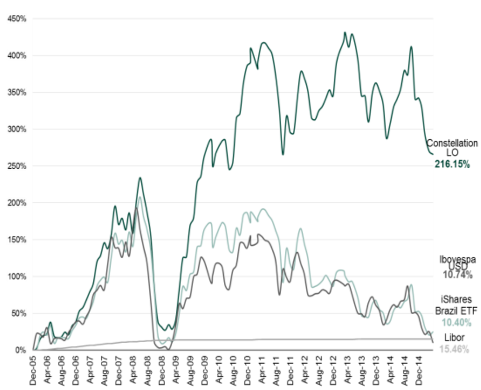
Share Appreciation (Net of all fees and audited by KPMG)

	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%	3.44%	-6.10%	-10.33%	-0.05%	-7.95%	9.47%	3.18%	-2.41%	-3.89%	-11.71%	321.35%
2014	-10.66%	4.85%	5.67%	2.69%	3.07%	5.48%	-1.21%	7.94%	-13.82%	0.38%	-2.96%	-8.76%	-9.74%	280.31%
2015	-5.53%	-1.12%	-11.02%										-16.87%	216.15%

Exposure (Delta Adjusted)

Sector	% Long NAV
Financials	27.12%
Education	16.61%
Consumer staples	14.49%
Services	8.70%
Consumer discretionary	5.36%
Fuel distribution	4.84%
Utilities	4.28%
Industrials	2.53%
Homebuilders	0.96%
Total	**84.90%**
Exposure to the BRL	100.0%

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



Number of Positions

Stocks	17

Value per Share (net of all fees)

As of March 31st, 2014	360.8193

Sector Attribution (month)

Outperformers	% NAV
Consumer discretionary	0.36%
Services	0.32%
Utilities	0.27%
Underperformers	**% NAV**
Financials	-0.85%
Consumer staples	-0.55%
Fuel distribution	-0.09%

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

Tenor	
1 Day	56.4%
1 Week	76.8%
1 Month	84.9%

Market Capitalization

>US$10 bn	41.8%
>US$ 1 bn and <US$10 bn	35.0%
<US$1 bn	8.1%
Total Equity Exposure	**84.9%**

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$ 581,182,494

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

Annualized Return	13.25%
Annualized Ibovespa USD Return	0.88%
Annualized Standard Deviation	32.00%
Ibovespa USD Annualized Standard Deviation	47.90%
# of Positive Months	67
# of Negative Months	45
Best Monthly Return	29.69%
Worst Monthly Return	-27.40%
ISIN:	KYG238261112

Constellation
ASSET MANAGEMENT

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Constellation Fund SPC Class B - Long Short

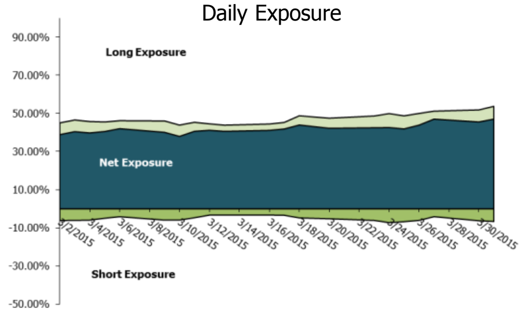
Fund Objective

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%	2.13%	-3.98%	-5.91%	-0.13%	-6.29%	5.55%	3.29%	-1.31%	-3.08%	-7.60%	144.63%
2014	-7.01%	3.31%	4.05%	1.94%	1.90%	2.73%	-1.44%	5.61%	-8.51%	1.08%	-1.01%	-4.53%	-2.96%	137.39%
2015	-1.59%	0.75%	-4.21%										-5.02%	125.47%

Daily Exposure



Total Portfolio P/L (Gross of Performance Fee)

	Jan2015	Feb2015	Mar2015	2015
Longs	(2.90)%	2.76%	(0.16)%	(0.38)%
Shorts	1.26%	0.09%	0.50%	1.86%
FX/FX Options/Fixed Income	(0.04)%	(1.89)%	(4.46)%	(6.30)%
Equity /Index Options	0.27%	(0.03)%	0.09%	0.33%
Others Expenses	(0.18)%	(0.18)%	(0.18)%	(0.54)%
Total	**(1.59)%**	**0.75%**	**(4.21)%**	**(5.02)%**

Number of Equity Positions

Long	24
Short	5

Value per Share (Net of all Fees)

As of March 31st, 2015	**188.7546**

Sector Exposure (Delta Adjusted)

Sector	Long	Short	Gross	Net
Financials	14.8%	0.0%	14.8%	14.8%
Education	7.7%	0.0%	7.7%	7.7%
Consumer staples	6.0%	0.0%	6.0%	6.0%
Services	5.2%	0.0%	5.2%	5.2%
Consumer discretionary	3.1%	0.0%	3.1%	3.1%
Fuel distribution	1.9%	0.0%	1.9%	1.9%
Industrials	1.5%	0.0%	1.5%	1.5%
Utilities	2.2%	-1.0%	3.2%	1.2%
Pulp & paper	1.0%	0.0%	1.0%	1.0%
Homebuilders	0.5%	0.0%	0.5%	0.5%
Energy	1.9%	-1.9%	3.8%	0.0%
Metals & mining	2.5%	-2.8%	5.4%	-0.3%
Infrastructure	0.0%	-1.0%	1.0%	-1.0%
Etfs/ibov/options	3.30%	0.00%	3.30%	3.30%
Total	**51.5%**	**-6.7%**	**58.2%**	**44.8%**
Exposure to the BRL				47.20%

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

Tenor	Long	Short
1 Day	87.6%	100.0%
1 Week	100.0%	100.0%
1 Month	100.0%	100.0%

Market Capitalization

	Long	Short
>US$10 bn	28.5%	3.7%
>US$ 1 bn and <US$10 bn	18.6%	3.0%
<US$1 bn	4.4%	0.0%
Total Equity Exposure	**51.5%**	**6.7%**

Main Characteristics

Inception Date*:	November 30, 2004.
Initial Investment:	US$100,000
Subsequent Investment:	US$50,000
Subscriptions:	Last Business Day of the month.
Redemptions:	Available series: monthly with 3 months prior notice.
Payments:	3 business days after the redemption day.
Advisory Fee:	2.0% per annum.
Performance Fee:	20% of the profit paid annually or upon redemption.
Net Asset Value:	Daily net of advisory fee.
AUM of the Strategy:	US$ 64,820,492

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

Annualized Return	7.01%
Annualized Standard Deviation	11.00%
# of Positive Months	70
# of Negative Months	54
Best Monthly Return	11.14%
Worst Monthly Return	-8.51%
ISIN:	KYG238261039

* Annualized T-Bill 90 daily return.