Constellation: Management Report 1Q16

Long Only Performance	Fund (USD)	MSCI Brazil (USD)
1Q16	22.48%	28.58%
Annualized return since inception	11.12%	1.75%

In the first quarter of this year, the Constellation Long Only Fund was up 22.48%, compared to the 28.58% of the MSCI Brazil. This year’s rally was due to: (1) a better performance of emerging markets in general (stabilization of oil prices and the Fed’s more dovish tone), and (2) the perspective of change in Brazil’s political leadership through Dilma Roussef’s impeachment. Some high beta stocks like Petrobrás and Banco do Brasil were the big winners. We won’t touch them for the time being though.

The Brazilian economy should experience its second year of negative growth. Companies and consumers in general are levered and afraid to consume/invest. Interest rates are abnormally high (14.25% per year) and there is little hope of a better scenario with the current government.

A change in leadership would mean a change, probably for the better, in economic policies. The yield curve would come down and some optimism would return to the markets. Year to date foreign inflows into local equities reached USD 10 bn. We believe these could double in a new government scenario.

The probability of Dilma’s impeachment is higher than 50%, but the timing is hard to know. What we do know is that portfolios should be composed of companies one would like to own in either scenario. Quoting Warren Buffett: “we use the Noah principle: predicting rain doesn't count, building arks does.".

We have been telling our investors that the rational for investing in equities in Brazil is:

1. Due to high barriers of entry (red tape, scale, access to top management) the average return of local leading companies is higher than their comparable global peers.

2. These leading companies grow stronger during crises. They benefit from their superior consumer franchise and robust balance sheets to gain market share over weak competitors.

3. Corporate governance in Brazil is way above the average in emerging markets. Most management teams are global-class and trustworthy. Think of Ambev/ABI, Embraer, Itaú, and Lojas Renner for example.

4. The leading companies tend to grow revenues above their sector’s average with earnings growing even more, due to operational leverage and high ROIC. These are real compounders.

5. Macro plays a big role, resulting in very high volatility in the currency and equity markets. There are lots of opportunities for patient, long term investors, to buy the above-mentioned companies.

6. Brazil is a big, liquid market that can generate a lot of Alpha for anti-cyclical investors. The key is to be anti-cyclical and focus on quality at a fair price.

All of the reasons above hold true with or without the president's impeachment.

Given that the economic backdrop is one of low growth, rising debt to GDP ratio and low corporate profitability, a change to market friendly economic policies would be welcomed by the market. There is no silver bullet for a new government. The process is going to be slow and there will be pain. However, as mentioned before, the hope of improvement is going to lower long term interest rates and create some optimism. Consumers and businesses have been on hold for a while now. There will be some cyclical rebound in the economy. Earnings expectations for 2017 on will improve (2016 is lost for most companies). Lower rates also mean higher P/E multiples and the stock market will react accordingly.

In a very tough global environment for investors to make any money, Brazil will stand out as an attractive opportunity. Investors are underweight Brazil. It is a big and liquid market, big institutions can easily invest hundreds of millions of dollars in Brazilian assets (the same cannot be said in most of other emerging markets). Yields are among the highest in the world, and equity markets are cheap, in general.

We increased the fund's exposure in the last few months, but given the high expected volatility, we do hold cash in the portfolio for potential opportunities. There will be volatility in either scenario.

There were little changes in the portfolio during the quarter. We exited our long term investment in Cielo and added to our BVMF and Ultrapar positions.

<u>Cielo</u>

Cielo (credit card acquirer) is still a unique asset in a business with high barriers to entry. However, during the quarter, our risk perception regarding the company deteriorated. We understand that the risks of changes in the economics of the acquiring vertical value chain are increasing and regulatory risks are also rising (besides the Central Bank, the Brazilian antitrust authority also issued a negative report on some practices adopted by the incumbents and their controlling shareholders). Having said that, we understand that Cielo continues to be a strong company in a good business and we continue to closely monitor the stock.

<u>BVMF</u>

Last week, BVMF's and Cetip's board of directors reached an agreement regarding the combination of both entities. The new company will be the vertically-integrated dominant player in Brazil offering a robust platform for all asset classes. Equally important, this transaction brings to an end the "competition threat" between both companies and increases the barriers to entry for newcomers. In addition to potential synergies, we understand that the combination will provide new business opportunities (for instance, the trading of fixed income securities that are currently under Cetip's custody service in BVMF's trading platform). We welcomed BVMF's full sale of its CME stake to meet financing needs for the acquisition and understand that it unlocked value for shareholders. There are some steps for the approval of the deal with regulators, but we are excited about the potential value creation of this combination.

<u>Ultrapar</u>

Regarding Ultrapar, the company is a textbook case of a leading compounder. Ultrapar is a multi-business company with leading position in its markets, with barriers to entry and competitive advantages that allow it to deliver high and consistent returns over time.

Even considering a tough year such as 2015 (3.9% GDP contraction), the company delivered 21% earnings growth and we see evidences that supports high teens compounded earnings growth in the next 5 years. It is a unique combination of very good capital allocation track record and strong execution.

Ultrapar is focused on the specialized distribution business, through Ipiranga (fuel) and Ultragaz (LPG), specialty chemicals in Oxiteno, storage for liquid bulk through Ultracargo and pharma retail through Extrafarma. In the following paragraphs, we briefly discuss Ultrapar's two main businesses, 89% of its EBITDA.

Ipiranga represents 70% of Ultrapar's EBITDA and is the second largest fuel distributor in Brazil with 21% market share. Ipiranga has strong commercial relationship with resellers (i.e. gas station operators) due to its exclusive distribution agreements. These are only possible as consumers trust Ipiranga's brand and associate it with high quality (not a long time ago, it was quite common to witness frauds in gasoline sold by unbranded gas stations). Gas stations also offer other services such as convenience stores, which boost the resellers volume sold and, consequently Ipiranga's results and competitive advantages. On the operational side, size matters: nationwide marketing campaigns, investments in distribution systems across the country and bargain power with resellers and ethanol suppliers. Ipiranga has been able to deliver strong results year after year, 21% EBITDA CAGR in the last 5 years, at a 20% return on invested capital. Nevertheless, it's still an underpenetrated market with good growth potential.

Oxiteno, which represents 19% of Ultrapar's EBITDA, is the largest producer of specialty chemicals in Latin America and the only producer of ethylene oxide in Brazil. Oxiteno's strong competitive advantage can be attributed to its client-oriented strategy which involves investments in R&D to develop new product applications (barriers to exit), trustworthy and fast lead time perceived by clients (Oxiteno's competitors basically have to import the products since they do not have local production in specialty chemicals business) and verticalized production (Oxiteno is a low cost and efficient producer). Planning the production capacity consistently ahead of demand and enhancing the client-supplier relationship in the long run, becomes a real threat for new entrants. These characteristics translate into regional dominance and protection against new entrants. Oxiteno delivered 25% EBITDA CAGR in the last 5 years and is currently delivering 17% return on invested capital. The company's main challenge is to maintain its strong dominance in Latin America and keep successfully expanding to international markets where it already operates (US/Mexico).

The combination of good assets with strong competitive advantages, state of the art corporate governance and aligned management & shareholders are evidences that Ultrapar will continue to deliver high and consistent returns in the long run. Regarding the blurry short term situation due to Brazil's political and economic challenges, some threats can be seen as opportunities for Ultrapar. For instance, tax increases in fuels (Federal CIDE/PIS/COFINS and State ICMS), extinction of JCP fiscal benefit (reduction in effective income tax rate) and Petrobras' aggressive divestment plan are among the government's options to equalize Brazil's fiscal balance, and all of these are either neutral or positive for Ultrapar. While domestic gasoline and diesel prices are abnormally higher than international prices, Ultrapar has been able to import and profit from this situation.

Ultrapar's businesses are very impacted by Brazil's GDP growth, consequently, 2016 is likely to be a year of demand contraction. In Ipiranga, fuel demand fell 1.9% YoY in 4Q15 and is indicating 3% YoY contraction in 1Q16 (nevertheless gaining market share compared to a 5% YoY total market contraction). We are seeing demand contraction in their other business units as well. Due to its strong competitive advantages, the company is operating with a much higher operational margin and also with low financial expenses (unlevered balance sheet), resulting in strong earnings growth for 2016 and beyond. In the meantime, Ultrapar is gaining market share, making accretive investments and studying the vast array of M&A opportunities (good timing for the buy side).

We are very confident that Ultrapar will get stronger after the current Brazilian crisis while, in the meantime, it will deliver strong results despite Brazil's macro challenges, reinforcing our perception that the company is a leading compounder.

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

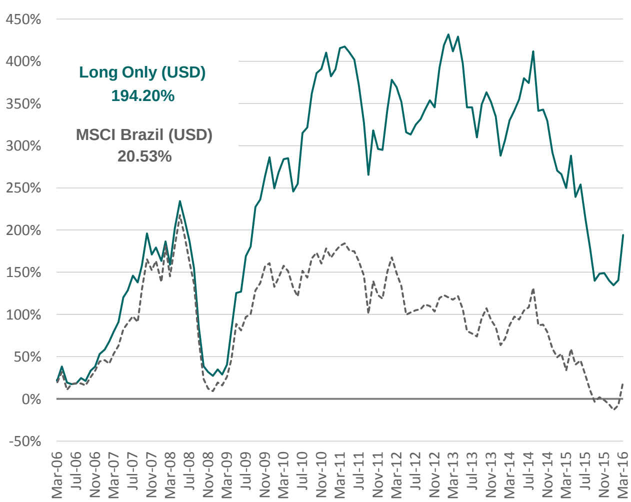
The fund's objective is to provide sophisticated investors with superior risk-adjusted returns by investing in stocks at the Brazilian Stock market through a rigorous research driven "bottom-up" fundamental approach, while carefully attempting to control portfolio risk and transaction costs. The fund 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	MSCI Brazil YTD	Since Incep.	MSCI Brazil Since Incep.
2005												2.45%	2.45%	-0.96%	2.45%	-0.96%
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%	45.80%	52.99%	44.39%
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%	79.99%	179.22%	159.89%
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%	-56.06%	23.55%	14.21%
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%	128.62%	274.75%	161.10%
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%	6.81%	395.01%	178.88%
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%	-21.59%	283.28%	118.68%
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%	0.34%	377.23%	119.42%
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%	-15.79%	321.35%	84.76%
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%	-13.74%	280.31%	59.38%
2015	-5.53%	-1.12%	-11.02%	10.92%	-7.34%	4.39%	-11.38%	-11.42%	-11.38%	5.27%	0.24%	-3.53%	-36.84%	-41.18%	140.20%	-6.26%
2016	-2.37%	2.65%	22.21%										22.48%	28.58%	194.20%	20.53%

Long Only Performance

(Equities Class vs MSCI Brazil – Since Inception)



Exposure (Delta Adjusted)

Sector	% Long NAV
Financials	28.09%
Consumer Staples	20.67%
Utilities	11.23%
Services	8.29%
Infrastructure	7.07%
Consumer Discretionary	6.12%
Education	4.19%
Homebuilders	4.04%
Industrials	1.87%
Healthcare	0.95%
ETFs/Ibovespa	-0.89%
Total	**91.63%**
Exposure to BRL	**96.35%**

Value per Share (Net of all Fees)

As of March 31st, 2016	335.7623

Number of Positions

Stocks	24

Sector Attribution (Month)

Outperformers	% NAV
Financials	6.09%
Consumer Staples	2.58%
Services	0.99%
Underperformers	**% NAV**
Industrials	-0.59%
Pulp & Paper	-0.24%

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

Tenor	
1 Day	39.25%
1 Week	73.99%
1 Month	97.27%

Market Capitalization

>USD 10 bn	30.55%
>USD 1 bn and <US$10 bn	53.87%
<USD 1 bn	7.21%
Total Equity Exposure	**91.63%**

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:	USD 535,397,431

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

Annualized Return	11.12%
Annualized Ibovespa USD Return	-0.48%
Annualized Standard Deviation	31.90%
Ibovespa USD Annualized Standard Deviation	47.70%
# of Positive Months	72
# of Negative Months	52
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 long biased 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.

Monthly Comment

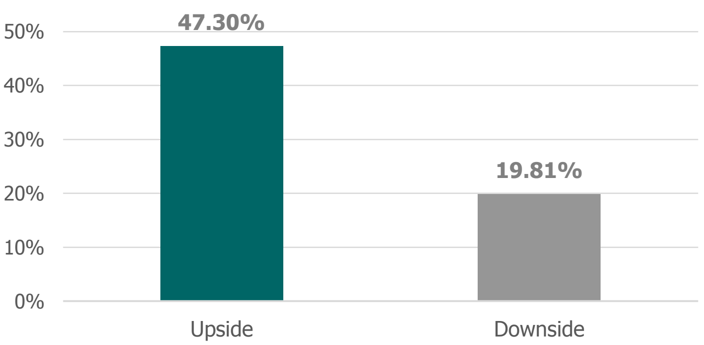
March was an exceptional month for the whole EM space due to the stabilization of oil prices and the FED's more dovish tone. Brazil outperformed its peers significantly, as the probability of the impeachment of president Rousseff has increased throughout the month in face of new political developments. This is now the base case scenario of most market participants. Independent political consultants now put the probability of the success of this process at 70%. Moreover, inflation is losing steam, what could lead the Central Bank to cut interest rates in the beginning of the second semester of 2016. And last, but not the least, the Brazilian Central Bank has taken advantage of the good momentum of the BRL to start buying back its outstanding BRL/USD swaps. The total exposure has dropped to USD 102 bn from USD 108 bn in January.

We started the month with a net exposure of 48% to equities and 36% to the BRL. Although we also believe that the impeachment is indeed a plausible outcome, it is hard to say how much is already priced in. Nevertheless, the political situation remains very unstable, and any unexpected shift in sentiment regarding the impeachment's probability should not be discarded. Hence, we decided to be defensive by holding companies we really like in either scenario. We also rebalanced the portfolio so we would keep the net exposure at around 48%, keeping our hedges and reducing the exposure to the BRL to close to 35%. Purchases of US dollars by the Central Bank may reduce the pace of appreciation of the BRL if things go well, and the BRL could suffer significantly if things go wrong (i.e. the impeachment does not succeed).

By all means, as the country can no longer withstand this situation, we will see the end of this imbroglio by the end of April.

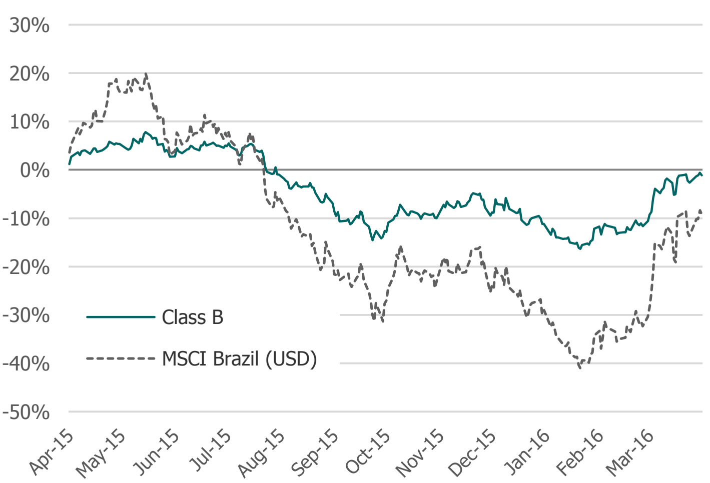
Upside/Downside Capture

(Class B vs MSCI Brazil – 24 Months Rolling)



Class B Performance

(Class B vs MSCI Brazil – 12 Months Rolling)



Value per Share (Net of All Fees)	
As of March 31st, 2016	186.5708

Performance (Net of All Fees)	MTD	YTD	Since Inception
Class B	10.58%	11.31%	122.85%
MSCI Brazil	28.58%	30.53%	514.97%
Class B Average Net Exposure			**36.14%**

Sector Exposure (Delta Adjusted)	Long	Short	Hedge	Net
Financials	15.54%	0.00%	-2.72%	12.82%
Consumer Staples	18.72%	0.00%	-6.82%	11.90%
Utilities	5.34%	0.00%	0.00%	5.34%
Services	6.28%	0.00%	-1.89%	4.39%
Infrastructure	5.36%	0.00%	-1.54%	3.82%
Consumer Discretionary	3.00%	0.00%	0.00%	3.00%
Homebuilders	2.54%	0.00%	0.00%	2.54%
Education	3.37%	0.00%	-1.53%	1.84%
Industrials	1.55%	0.00%	-0.24%	1.31%
Healthcare	0.49%	0.00%	0.00%	0.49%
ETFs/Ibovespa	11.72%	0.00%	-11.19%	0.53%
Total	**73.91%**	**0.00%**	**-25.93%**	**47.98%**
Exposure to the BRL				**35.86%**

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Constellation Fund SPC Class B - Long Short

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	MSCI Brazil YTD	Since Incep.
2002*												2.27%	2.27%	11.10%	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%	115.01%	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%	36.47%	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%	57.05%	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%	45.80%	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%	79.99%	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%	-56.06%	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%	128.62%	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%	6.81%	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%	-21.59%	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%	0.34%	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%	-15.79%	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%	-13.74%	137.39%
2015	-1.59%	0.75%	-4.21%	5.34%	-2.51%	2.27%	-5.74%	-5.94%	-6.20%	3.02%	0.57%	-1.89%	-15.66%	-41.18%	100.22%
2016	-1.13%	1.81%	10.58%										11.31%	28.58%	122.85%

Main Characteristics

Inception Date	November 30, 2004.
Initial Investment	USD 100,000
Additional Investment	USD 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	1.5% per annum.
Performance Fee	15% of the profit paid annually or upon redemption.
Net Asset Value	Daily net of advisory fee.
AUM of the Strategy	US$ 59,621,027

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

Tenor	Long	Short
1 Day	97.13%	100.00%
1 Week	99.03%	100.00%
1 Month	100.00%	100.00%

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

Annualized Return	6.37%
Annualized Standard Deviation	11.60%
# of Positive Months	76
# of Negative Months	60
Best Monthly Return	11.14%
Worst Monthly Return	-8.51%
ISIN	KYG238261039

Market Capitalization

	Long	Short
>USD 10 bn	33.34%	0.00%
>USD 1 bn and <USD 10 bn	36.91%	0.00%
<USD 1 bn	3.66%	0.00%
Equity Exposure (excluding hedges)	**73.91%**	**0.00%**

Total Portfolio P&L
(Gross of Performance Fee)

	Jan2016	Feb2016	Mar2016	2016
Equity Long	0.27%	1.89%	8.07%	10.46%
Equity Short	0.15%	-0.08%	-0.47%	-0.40%
Hedges	-0.32%	-0.31%	-2.08%	-2.69%
Futures	-0.61%	0.39%	0.79%	0.57%
FX & FX Derivatives	-0.45%	0.06%	4.41%	4.00%
Other Expenses	-0.17%	-0.14%	-0.15%	-0.51%
Total	**-1.13%**	**1.81%**	**10.58%**	**11.31%**