

# Constellation: Management Report 1Q17

Long Only Performance	Fund (USD)	MSCI Brazil (USD)
1Q17	16.47%	10.10%
Annualized return since inception	13.60%	4.88%

In the first quarter of 2017, the Constellation Long Only fund was up 16.47%, compared to 10.10% for the market.

In the last few weeks we have been seeing an increasing interest for Brazil. There are some questions that come up often. We thought it would be helpful to address some of these issues.

### 1. What are the chances that the Social Security reform will be approved this semester?

We believe the odds are in favor of an approval in the Lower House in the first semester of 2017. Once it is approved in the Lower House, the work in the Senate should be easier. Social Security is a sensitive issue in most, if not all countries, and it takes strong political will to tackle the issue. President Temer has a relatively solid base in Congress and politicians know that if no reform is approved the economy will suffer dearly, which is good for no one.

The reform is a must do. Given that Brazil will have a decreasing number of young workers to “support” an increasing number of pensioners, if there is no reform, there will be a collapse in education, health and defense spending. Social Security expenditures account for approximately 45% of the primary federal government expenses today and are expected to reach almost 70% in 10 years. This is well known by politicians.

### 2. After all the negotiations, what will be the effective positive impact of the approved Social Security reform?

The final terms are still unknown as negotiations are still under way, but expectations are that the government will achieve 60% of what it asked, which would be sufficient to stabilize the debt to GDP ratio in the medium term. The major issue is the transition from the old to the new regime. The initial proposal would mean a 2% gain in GDP (1.5% lower expenses and 0.5% higher revenues) in 10 years. There are 4 alternative proposals by congressmen on the table regarding the transition period. These could change the final positive impact from 2.0% to 0.3% of GDP in the worst case. We believe that in the end the government’s original proposal will change, with an expected positive impact of 1.5%. This would be good news, paving the way for lower interest rates and inflows into equities.

### 3. Shifting gears, how is the economy doing?

Given the growth constraints of the Brazilian economy (low government investments, high public and private indebtedness, still high interest rates, low productivity, etc.) the recovery will be slow. However, we are seeing some signs of improvements in the last few months. Several important indicators of economy activity are either bouncing back to positive territory or are already there.

Power consumption grew 3.9% YoY in 1Q17 compared to -1.2% in 4Q16, and the positive trend is expected to continue in the coming quarters. The same can be seen in corrugated box shipments (mostly dedicated to consumer goods) which are also in positive territory, +5.2% YoY in 1Q17 compared to -4.2% in 4Q16. Heavy vehicle traffic fell 7% YoY in 4Q16 and 1Q17 is pointing to a much softer drop, -2.6% in 1Q17 and -0.7% in March. The confidence indices (industrial and consumer confidence) have been showing positive numbers since 2H16 and the positive trend remains in 1Q17. These indicators provide some hard evidence of the potential improvements to come.

This document is for information purposes only and should not be construed as an advertisement with respect to the purchase or sale of shares of this investment fund. This is neither an offer to sell nor a solicitation of any offer to buy any securities in any fund managed by us. Any offering is made only pursuant to the relevant offering document, together with the current financial statements of the relevant fund, if available, and the relevant subscription application, all of which must be read in their entirety. No offer to purchase securities will be made or accepted prior to the receipt of these documents and the completion of all appropriate documentation. Past performance of a fund is no guarantee as to its performance in the future. This presentation is not an advertisement and is not intended for public use or distribution.

The performance data is net of all fees, allocations and Expenses (and based on return of an investor participating in “new issue” securities). This performance data was (audited by KPMG/unaudited) and has been computed by the Investment Manager. Actual performance will also vary for individual investors depending upon, among others factors, the timing of investment and withdrawals (and the investor’s eligibility status regarding receiving profits and losses from “new issues”) (the performance data includes reinvestment of dividends). Past performance is not indicative of future results.

The Ibovespa is a well-known stock market index which is included merely to show the general trend in the equity markets in the periods indicated and is not intended to imply that the Fund’s account is comparable to the index either in composition or element of risk.

Any targets, estimates, averages or ranges or ranges set forth herein are non-binding guidelines and are subject to change at any time without notice to investors.

	2016				2017		
	1Q	2Q	3Q	4Q	Jan	Feb	Mar
<b>YoY growth</b>							
Energy consumption	-2.9%	2.8%	0.6%	-1.2%	6.1%	2.7%	3.2%
Corrugated box shipments	-5.3%	1.1%	0.1%	-4.2%	5.3%	3.1%	7.1%
Heavy vehicle traffic	-5.8%	-4.0%	-7.1%	-7.0%	-2.3%	-4.9%	-0.7%
Vehicles production	-26.9%	-14.4%	-12.1%	14.4%	18.2%	39.2%	19.1%
Industrial production	-11.4%	-6.4%	-5.1%	-3.2%	1.4%	-0.8%	na
Real wage bill	-4.2%	-4.2%	-3.6%	-2.2%	-1.1%	-0.2%	na
Industry confidence	-9.9%	4.2%	16.7%	13.5%	14.1%	18.1%	17.6%
Consumer confidence	-11.7%	-7.3%	15.4%	17.9%	17.0%	17.0%	25.1%

Source: ONS, ABPO, ABCR, Anfavea, IBGE, FGV and iFlux.

In addition to these important leading indicators pointing to a positive trend, we also see improvement in specific sectors. Shopping mall traffic grew 0.6% YoY in March, which was the first positive print in the last 12 months. For the first time in 19 months, we had net additions in health insurance clients. Listed higher education companies recorded growth in student enrollment after nearly four cycles of reduction. All in all, we've been hearing from the companies that March was a much better month compared to the previous ones, with better figures regarding same-store-sales (malls and retail), delinquency rates and sales growth.

Although we don't believe that 1Q17 was a very good quarter to companies in general, the start of a positive trend can be seen in most of our invested companies.

#### 4. So, how have earnings been?

Brazil has been facing severe economic challenges that led to an accumulated GDP decline of 7.2% in 2015 and 2016. Our thesis of strong companies getting stronger during crisis played out as expected, and our portfolio delivered a consolidated EPS growth of 10% in these two years.

There were different levels of operating performance, but a common feature among our companies is that they widened their moats, and they are now better positioned to reap the benefits from their better competitive position when economic activity recovers. Some interesting examples are:

- In the last two years, Lojas Renner improved its supply chain, managed to grow sales 20%, delivered consistent apparel collections, and grew gross profit by 28% and EPS by 31%. Meanwhile, Renner's competition was hit hard by the crisis, and we expect that Brazil's recovery will help Renner to further widen its operating performance gap vs competitors.
- Itaú and Bradesco together had BRL 41.7bn in earnings in 2014, and BRL 43bn in 2016. That is a terrific performance in a period with such a severe GDP contraction. Although the combined ROE declined from 22.2% to 19%, the credit market became even more concentrated in this period, and Itaú and Bradesco have much stronger balance sheets than their state-owned peers, ready to benefit from the economic recovery to come.
- Between 2015 and 2016, Grupo Fleury (medical diagnosis) delivered an outstanding annual SSS of 12.6% in its most important brand in the period, compared to a 5.0% annual market growth. Fleury also increased its EBITDA margin in 600bps, reduced its receivables days and materially increased its cash flow conversion. All that was delivered while NPS (net promoter score) was elevated from 65.5% to 75.0%. It is another example of a company that got stronger during the crisis, and is prepared to accelerate its expansion at very attractive returns on invested capital (around 30%).

Away from all the political noise coming from Brasilia and abroad, our portfolio companies are working hard to add value to customers, widen their moats and be more efficient.

This document is for information purposes only and should not be construed as an advertisement with respect to the purchase or sale of shares of this investment fund. This is neither an offer to sell nor a solicitation of any offer to buy any securities in any fund managed by us. Any offering is made only pursuant to the relevant offering document, together with the current financial statements of the relevant fund, if available, and the relevant subscription application, all of which must be read in their entirety. No offer to purchase securities will be made or accepted prior to the receipt of these documents and the completion of all appropriate documentation. Past performance of a fund is no guarantee as to its performance in the future. This presentation is not an advertisement and is not intended for public use or distribution.

The performance data is net of all fees, allocations and Expenses (and based on return of an investor participating in "new issue" securities). This performance data was (audited by KPMG/unaudited) and has been computed by the Investment Manager. Actual performance will also vary for individual investors depending upon, among others factors, the timing of investment and withdrawals (and the investor's eligibility status regarding receiving profits and losses from "new issues") (the performance data includes reinvestment of dividends). Past performance is not indicative of future results.

The Ibovespa is a well-known stock market index which is included merely to show the general trend in the equity markets in the periods indicated and is not intended to imply that the Fund's account is comparable to the index either in composition or element of risk.

Any targets, estimates, averages or ranges or ranges set forth herein are non-binding guidelines and are subject to change at any time without notice to investors.

## 5. Any changes in Constellation's portfolio?

The answer is yes. We probably had the most changes in a single quarter in the last 3 years. During the recent recession most equity portfolios in Brazil were defensive (relatively high cash levels) and concentrated in similar defensive names, such as Cielo, Itaú, Ambev, Ultrapar, etc. This created an unintended overlap among managers' portfolios. In the last few months 3 things happened: (1) the daily traded volume boomed, especially in mid-caps, increasing the number of names that are eligible for us, (2) several new companies became public and (3) better expectations regarding growth improved the outlook for mid and late cycle companies that were out of fashion. All of this is good news and make us very optimistic we will generate alpha through stock picking going forward.

## 6. Do you participate in IPOs? What are your expectations on the IPO pipeline?

We acknowledge that investing in IPOs is not an obvious decision. We are buying from knowledgeable sellers (the owners), there are usually no bargains and there are no IPOs when the market is cheap. In the last few months there were 14 IPOs or secondary offerings. We participated in 7 of them. The performance of most of the stocks has been positive (see table below) and we are happy that the number of interesting businesses for us to invest is growing. There are usually 3 phases in the IPO cycle. Phase 1, the beginning of the cycle, when only the best companies are able to raise money and valuations are usually fair; we believe this is now, the best time to invest. Phase 2, when several mid-caps and second best business raise money at fair to expensive prices; one must be very selective here. Phase 3, when high-risk high-growth businesses and some frauds or dream projects raise money at the top of the market benefitting from investors' greed; these are the most dangerous but best short opportunities.

Company	Ticker	Offering Date	Performance since the offering*	Ibovespa's performance since the offering*	#
<b>Rumo</b>	RAIL3 BZ	04/08/16	254.0%	31.7%	222.3%
<b>Energisa</b>	ENGI11 BZ	07/26/16	25.0%	12.5%	12.5%
<b>CVC</b>	CVCB3 BZ	08/11/16	40.1%	12.3%	27.8%
<b>Linx</b>	LINX3 BZ	09/26/16	-11.6%	10.1%	-21.7%
<b>Taesa</b>	TAEE11 BZ	10/18/16	21.1%	0.2%	20.9%
<b>Alliar</b>	AALR3 BZ	10/28/16	-21.8%	-0.6%	-21.2%
<b>Sanepar</b>	SAPR4 BZ	12/20/16	13.7%	9.4%	4.3%
<b>Movida</b>	MOVI3 BZ	02/06/17	10.1%	-0.5%	10.6%
<b>CCR</b>	CCRO3 BZ	02/10/17	10.4%	-1.7%	12.1%
<b>Hermes Pardini</b>	PARD3 BZ	02/11/17	11.3%	-3.4%	14.7%
<b>Lojas Americanas</b>	LAME4 BZ	03/08/17	-0.6%	-1.3%	0.7%
<b>Alupar</b>	ALUP11 BZ	04/04/17	2.1%	-2.8%	4.9%
<b>Azul</b>	AZUL4 BZ	04/11/17	9.3%	-1.2%	10.5%
<b>Netshoes</b>	NETS US	04/11/17	-10.6%	-1.2%	-9.4%

Source: Bloomberg.

Constellation participated.

\*Performance (BRL) until April 12th of 2017.

## 7. What about valuations after the rally?

The Ibovespa in BRL is up 30% in the last 12 months, but still down 12% from May 2008 peak. In general, earnings for the best companies performed better than stock prices in the last few years. Our portfolio is trading close to the average historical multiple. We expect earnings to accelerate in the next quarters based on a better economy and companies' operational and financial leverage. We still see value in most stocks, especially considering that the cost of equity is collapsing. Interest rates already started to fall from 14.25% (beginning of 4Q16) to 12.25% (end of 1Q17) and are now

This document is for information purposes only and should not be construed as an advertisement with respect to the purchase or sale of shares of this investment fund. This is neither an offer to sell nor a solicitation of any offer to buy any securities in any fund managed by us. Any offering is made only pursuant to the relevant offering document, together with the current financial statements of the relevant fund, if available, and the relevant subscription application, all of which must be read in their entirety. No offer to purchase securities will be made or accepted prior to the receipt of these documents and the completion of all appropriate documentation. Past performance of a fund is no guarantee as to its performance in the future. This presentation is not an advertisement and is not intended for public use or distribution.

The performance data is net of all fees, allocations and Expenses (and based on return of an investor participating in "new issue" securities). This performance data was (audited by KPMG/unaudited) and has been computed by the Investment Manager. Actual performance will also vary for individual investors depending upon, among others factors, the timing of investment and withdrawals (and the investor's eligibility status regarding receiving profits and losses from "new issues") (the performance data includes reinvestment of dividends). Past performance is not indicative of future results.

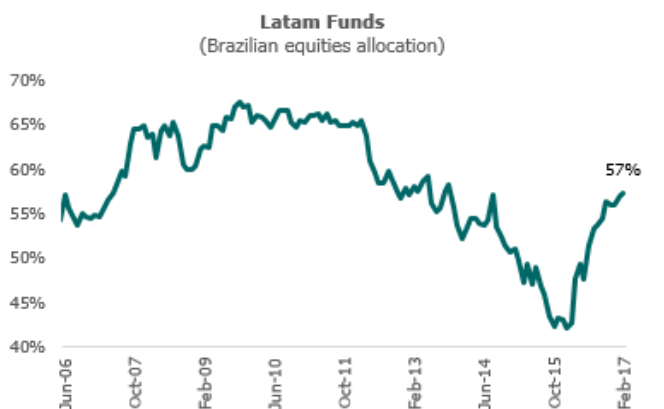
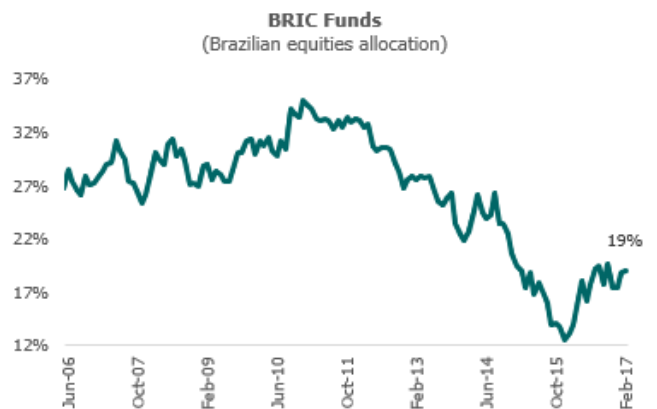
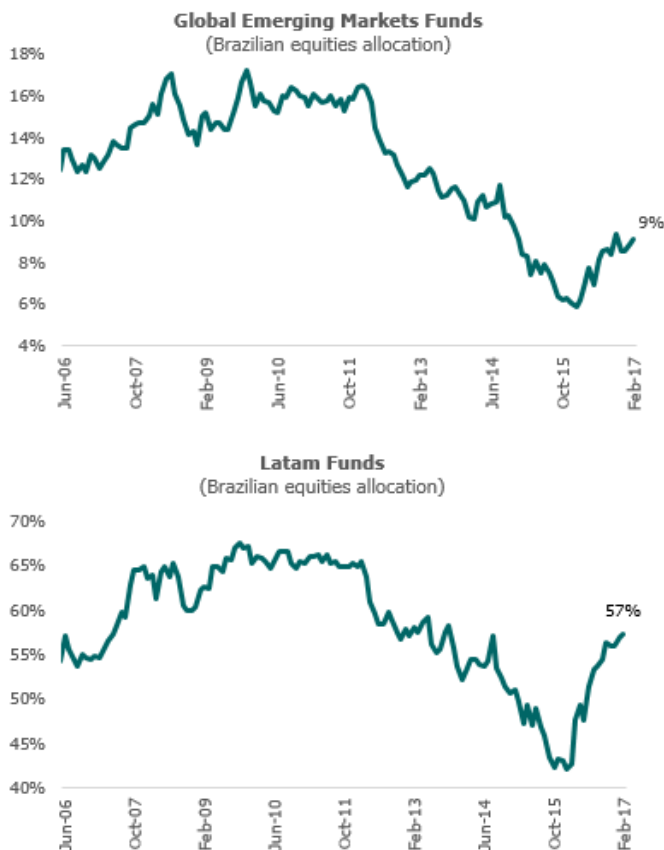
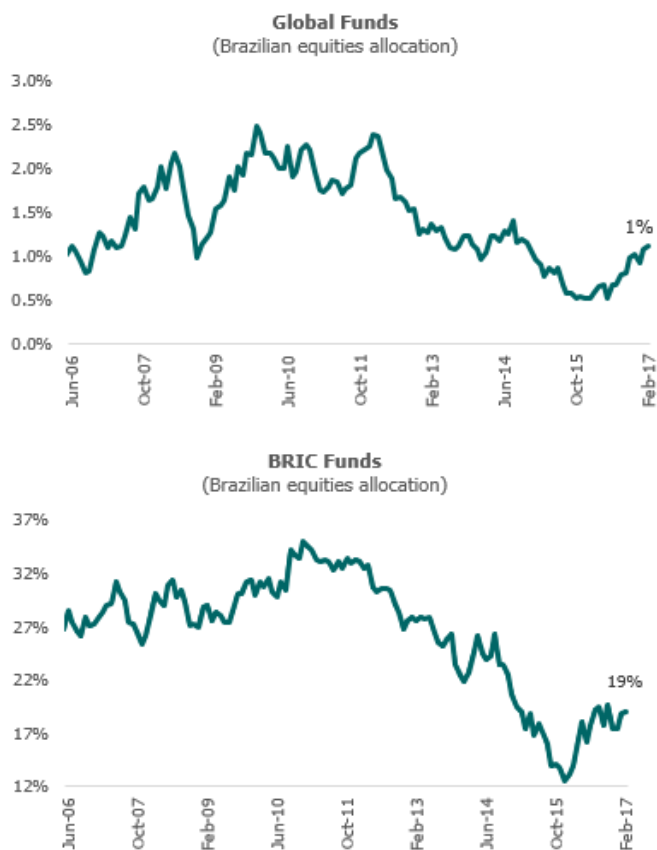
The Ibovespa is a well-known stock market index which is included merely to show the general trend in the equity markets in the periods indicated and is not intended to imply that the Fund's account is comparable to the index either in composition or element of risk.

Any targets, estimates, averages or ranges or ranges set forth herein are non-binding guidelines and are subject to change at any time without notice to investors.

expected to end 2017 at 8.5%. We believe the variant perception we have compared to the market is on earnings growth. We are more constructive.

### 8. How have flows to equities been in Brazil?

Local and international investors' exposure to Brazilian equities is at a long-term low. The lackluster performance of the market in the last few years, the very high local interest rates and the currency volatility reduced interest for equities. In 2009 (all time high allocation) Brazil used to represent 2.4% of Global Funds, 17% of Global Emerging Market Funds, 31% of BRIC Funds and 67% of Latam Funds. These numbers today are 1%, 9%, 19% and 57% respectively, having reached even lower numbers in the beginning of 2016. This year we are seeing some positive signs of improvement. Looking at the charts below one can see that flows have started to come, although the allocation is still far from 2009 levels. In the first quarter of 2017 we had USD 12bn net inflows to Local Funds, after USD 100bn of net redemptions in the last four years.



Source: BTG Pactual

### 9. Any changes in the team?

Rafael Monnerat after almost 4 years with us, is leaving to follow his wife to Google Dublin. Rafael started as an intern and became an outstanding consumer products analyst. He came via the Constellation Challenge and made us very proud. We wish him the best of luck. Marcos Prado is joining us to cover Rafael's place.

This document is for information purposes only and should not be construed as an advertisement with respect to the purchase or sale of shares of this investment Fund. This is neither an offer to sell nor a solicitation of any offer to buy any securities in any fund managed by us. Any offering is made only pursuant to the relevant offering document, together with the current financial statements of the relevant fund, if available, and the relevant subscription application, all of which must be read in their entirety. No offer to purchase securities will be made or accepted prior to the receipt of these documents and the completion of all appropriate documentation. Past performance of a fund is no guarantee as to its performance in the future. This presentation is not an advertisement and is not intended for public use or distribution.

The performance data is net of all fees, allocations and Expenses (and based on return of an investor participating in "new issue" securities). This performance data was (audited by KPMG/unaudited) and has been computed by the Investment Manager. Actual performance will also vary for individual investors depending upon, among others factors, the timing of investment and withdrawals (and the investor's eligibility status regarding receiving profits and losses from "new issues") (the performance data includes reinvestment of dividends). Past performance is not indicative of future results.

The Ibovespa is a well-known stock market index which is included merely to show the general trend in the equity markets in the periods indicated and is not intended to imply that the Fund's account is comparable to the index either in composition or element of risk.

Any targets, estimates, averages or ranges or ranges set forth herein are non-binding guidelines and are subject to change at any time without notice to investors.

## 10. What about the Constellation Challenge?

Steve Mandel (Lone Pine Capital) once told us that Constellation should be the place young people that want to be involved with investing aspire to work at. Inspired by Steve's words, we conduct continuous education initiatives with students of the best universities in Brazil, to improve student's knowledge about investing and about Constellation.

One of our most important initiatives on this front is the Constellation Challenge, which had its 3rd edition last month, and became Brazil's largest investment case competition (715 students enrolled), with very high satisfaction levels (NPS) – 98% of respondents would recommend it to a friend. Constellation Challenge puts students to work on business analysis and valuation, has been contributing to strengthen interest about investing among students, and has been enhancing our talent pipeline. We couldn't be happier, and praise is deserved for our team's effort and dedication. They are the student's heroes, real popstars.

### **B3 Investment Case**

*"What should you be doing in running your business? Just what you always do: widen the moat, build enduring competitive advantage, delight your customers, and relentlessly fight costs."* – Warren Buffet.

Last month, the Brazilian regulators approved the merger between BM&FBovespa (BVMF) and Cetip, with the combined company subsequently rebranded to B3 (Brasil Bolsa Balcão) and becoming the 5th largest global exchange by market cap. This merger was the most recent chapter in the consolidation of exchanges in Brazil, which started in the 1900s – believe it or not, Brazil once had 21 exchanges.

After the official approval, B3 announced Gilson Finkelsztain (former Cetip CEO) as the new CEO starting at the next shareholders meeting (scheduled to take place on 28th of April). In Gilson's almost 4 years' term as Cetip's CEO, the company delivered strong results (average annual EPS growth of 16% during his leadership) and several stakeholders highlight the good job he did. The company also disclosed the new management team, and we were happy to learn that all the former business unit leaders of BM&FBovespa and Cetip stayed in the company. Edemir Pinto, a very seasoned leader with over 30 years of track record in the sector, will step down as B3's CEO. We wish all the best to Edemir, and recognize his significant contributions for B3 and the exchange industry in Brazil. The Board of Directors of B3 will have some changes as well and our partner, Florian Bartunek, will join the Board as an independent member. Pedro Parente will continue as the Chairman.

As a recap, BM&FBovespa acquired Cetip for BRL 13bn, which implies a multiple of 18x earnings before synergies (and 15x post-synergies, as per our estimates). Given B3's high cash flow profile and considering that it is in the final stages of a significant capex program, we expect the company to continue to return a lot of cash to shareholders. To illustrate, we estimate that the EBITDA of the new entity in 2018 will be almost 50% larger than the pro-forma figures of 2015 (when BM&FBovespa plus Cetip paid a total of BRL 2bn in dividends, equivalent to a 100% payout). Furthermore, we estimate an attractive 8% dividend yield within 4 years, an unusual level for such a high-quality business.

B3 is a strong network platform and will earn revenue in every trade, registration and custody of all assets classes in Brazil. In this sense, the company can be compared to Facebook, Google or Apple – all of them have a strong network effect and high returns. Better than having a business with attractive economics, is having a good business protected by barriers to entry, and this is the case for B3 in our opinion.

The source of this entrenched competitive position is its vertically integrated business model, providing a state-of-the-art trading platform for market participants, all the way to offering clearing and settlement services through a central counterparty clearing house (CCP) for all types of trades. In addition to that, given its legacy relationship and good reputation with its clients, there are material switching costs to an alternative system.

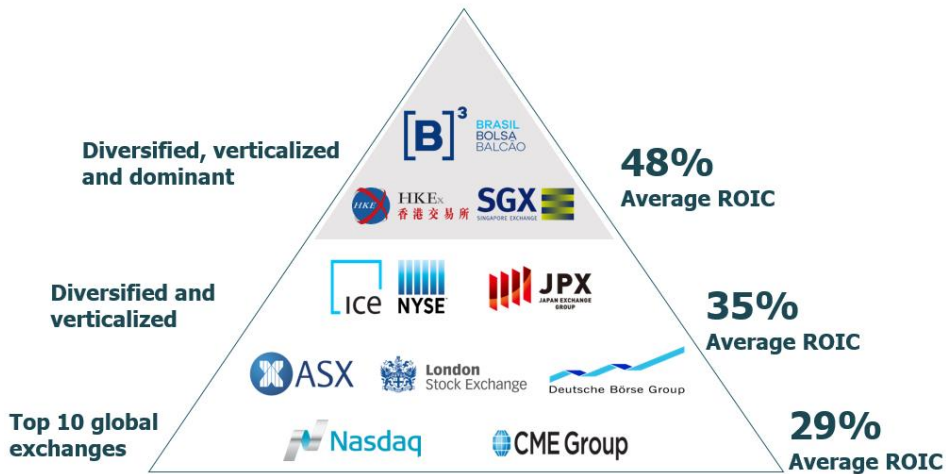
Besides its vertically integrated model, B3 is a multiproduct platform, consolidating a wide variety of assets (e.g. equities, derivatives, currencies and fixed-income instruments). This one-stop-shop configuration enhances its moat and network effects.

This document is for information purposes only and should not be construed as an advertisement with respect to the purchase or sale of shares of this investment fund. This is neither an offer to sell nor a solicitation of any offer to buy any securities in any fund managed by us. Any offering is made only pursuant to the relevant offering document, together with the current financial statements of the relevant fund, if available, and the relevant subscription application, all of which must be read in their entirety. No offer to purchase securities will be made or accepted prior to the receipt of these documents and the completion of all appropriate documentation. Past performance of a fund is no guarantee as to its performance in the future. This presentation is not an advertisement and is not intended for public use or distribution.

The performance data is net of all fees, allocations and Expenses (and based on return of an investor participating in "new issue" securities). This performance data was (audited by KPMG/unaudited) and has been computed by the Investment Manager. Actual performance will also vary for individual investors depending upon, among others factors, the timing of investment and withdrawals (and the investor's eligibility status regarding receiving profits and losses from "new issues") (the performance data includes reinvestment of dividends). Past performance is not indicative of future results.

The Ibovespa is a well-known stock market index which is included merely to show the general trend in the equity markets in the periods indicated and is not intended to imply that the Fund's account is comparable to the index either in composition or element of risk.

Any targets, estimates, averages or ranges or ranges set forth herein are non-binding guidelines and are subject to change at any time without notice to investors.



We understand that B3 has various growth avenues, the main ones being: inflation future derivative contract, fixed-income ETFs, stock borrowing market expansion, stock option market making, BDR program expansion, new products in the mortgage and vehicles financing market (the last two were added with Cetip’s acquisition). Equally important, some opportunities are only possible due to the combination of both companies, for instance, a private fixed-income bond deposited in Cetip’s depository will be traded in BM&FBovespa’s multi-asset trading platform.

As an additional note, the clearing integration is evolving as expected and should be fully delivered this year, benefiting clients with margin requirement optimization. The integrated clearing combined with a new risk management system will allow the exchange to have a complete view of the client’s portfolio, which permits cross-margining between different asset classes and markets, considering the diversification effects. This will increase the client’s stickiness to B3’s platforms.

B3 is also advancing its strategy to acquire equity stakes in the main exchanges in Latin America, aiming to position itself as a regional leader. They acquired stakes in the Colombian and Mexican exchange and increased their exposure to the Chilean exchange in 2016. The most recent investment was in the Peruvian exchange, announced a few months ago. The intention is to develop new business opportunities and become a leader in the region. We understand that this is a long-term movement and see it as an optionality.

We view B3 entering a new era with some challenges ahead. Initially, integrating different cultures and simultaneously maintaining a high level of service provided to clients are the most critical priorities. In a longer-term horizon, new disruptive technologies can change the way of running the business. One of the main aspects of the exchange industry worldwide is the intense use of technology and current discussions have been dominated by the potential application of blockchain – B3’s management team is aware of this issue and has a dedicated team to address the potential risks and opportunities arising from that.

The potential entry of new competitors in Brazil is another theme that is on our radar. After studying the exchange sector in other countries, we found strong evidences that the vertically integrated business model is a robust competitive advantage that indeed, protects returns. For instance, in Japan, the incumbent vertically integrated exchange increased its ROIC despite competition in the trading business (a much smaller profit pool when compared to the post-trading segment) – ROIC was approximately 43% before competition, and expanded to 47% afterwards. In Australia, where the incumbent exchange has the same configuration, competition also happened in the trading business solely and they managed to increase their ROIC as well (34% before the entry of new players to 40% later). That said, we understand that B3 has a very solid competitive position and if competition occurs in Brazil, it will probably be in the trading business.

*This document is for information purposes only and should not be construed as an advertisement with respect to the purchase or sale of shares of this investment Fund. This is neither an offer to sell nor a solicitation of any offer to buy any securities in any fund managed by us. Any offering is made only pursuant to the relevant offering document, together with the current financial statements of the relevant fund, if available, and the relevant subscription application, all of which must be read in their entirety. No offer to purchase securities will be made or accepted prior to the receipt of these documents and the completion of all appropriate documentation. Past performance of a fund is no guarantee as to its performance in the future. This presentation is not an advertisement and is not intended for public use or distribution.*

*The performance data is net of all fees, allocations and Expenses ( and based on return of an investor participating in "new issue" securities). This performance data was (audited by KPMG/unaudited) and has been computed by the Investment Manager. Actual performance will also vary for individual investors depending upon, among others factors, the timing of investment and withdrawals (and the investor's eligibility status regarding receiving profits and losses from "new issues") (the performance data includes reinvestment of dividends). Past performance is not indicative of future results.*

*The Ibovespa is a well-known stock market index which is included merely to show the general trend in the equity markets in the periods indicated and is not intended to imply that the Fund's account is comparable to the index either in composition or element of risk.*

*Any targets, estimates, averages or ranges or ranges set forth herein are non-binding guidelines and are subject to change at any time without notice to investors.*

All-in, in the past few years B3 focused on widening its moat, by merging BM&F and Bovespa, by investing in new systems, products and buying Cetip. Additionally, we are very excited with B3's prospects and given its early cycle nature, we expect the company to capture the benefits of the economic recovery and declining interest rates in "real time". The improvement in the business environment in Brazil should have several positive effects in the capital markets, such as: unlock new IPO's; increase money inflows to the equity markets; incentivize more debt issuance by the companies to invest in projects and increase credit origination by the banks. B3 is very well positioned to generate value in this scenario. Also, given its powerful operational leverage, we understand that it will deliver margin expansion and strong earnings growth for years to come. As per our base-case estimates, B3 offers a 18% per year nominal return potential, which we view as an attractive investment.

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**

This document is for information purposes only and should not be construed as an advertisement with respect to the purchase or sale of shares of this investment Fund. This is neither an offer to sell nor a solicitation of any offer to buy any securities in any fund managed by us. Any offering is made only pursuant to the relevant offering document, together with the current financial statements of the relevant fund, if available, and the relevant subscription application, all of which must be read in their entirety. No offer to purchase securities will be made or accepted prior to the receipt of these documents and the completion of all appropriate documentation. Past performance of a fund is no guarantee as to its performance in the future. This presentation is not an advertisement and is not intended for public use or distribution.

The performance data is net of all fees, allocations and Expenses ( and based on return of an investor participating in "new issue" securities). This performance data was (audited by KPMG/unaudited) and has been computed by the Investment Manager. Actual performance will also vary for individual investors depending upon, among others factors, the timing of investment and withdrawals (and the investor's eligibility status regarding receiving profits and losses from "new issues") (the performance data includes reinvestment of dividends). Past performance is not indicative of future results.

The Ibovespa is a well-known stock market index which is included merely to show the general trend in the equity markets in the periods indicated and is not intended to imply that the Fund's account is comparable to the index either in composition or element of risk.

Any targets, estimates, averages or ranges set forth herein are non-binding guidelines and are subject to change at any time without notice to investors.