Constellation: Management Report 2Q13

Long Only Performance	Fund	Ibovespa in USD
YTD:	- 9.42%	- 28.52%
Last 12 months:	+ 7.88%	- 21.10%
Annualized Return since inception:	+ 21.28%	+ 5.02%

Long Short Performance	Fund
YTD:	- 5.34%
Last 12 months:	+ 1.43%
Annualized Return since inception:	+ 9.09%

Dear Investor,

Another quarter has passed with very high volatility and emerging markets' assets falling sharply – Brazilian markets were among the worst performers globally. The Ibovespa was down -15.8% in BRL and -23.6% in USD in 2Q13; as for the last 12 months, the Index was down -12.7% in BRL and -21.1% in USD. We have been clearly going through a bear market in the last two and half years. On top of that, in the last two months, the depreciation of the BRL currency has been intensifying the lackluster performance of the Brazilian stock market, now at April 2009 levels.

As mentioned in our last letter, there are several reasons for such poor performance of companies in the Ibovespa, such as: higher middle class indebtedness, less competitiveness in several segments, above-inflation wage increases and excessive Government intervention. In addition to the deteriorating macroeconomic fundamentals, last month's nationwide protests caught investors by surprise.

Innumerous reasons can explain the protests, but they mainly rely on people's (especially the youth) dissatisfaction with the way politicians and authorities cannot live up to their duties and deliver an acceptable level of basic conditions. It is basically impossible not to agree with what the protests claim for: less corruption, better management of public goods, better access and higher quality of public health and education, and better public transportation systems. At first glance, such large demonstrations may give an idea of social unrest, but in fact, they are a result of a more conscious society, a democratic environment, free press and freedom of expression. Last time we saw manifestations of this magnitude (20 years ago!) positive political changes took place. We hope to see the same happening this time: perhaps reforms that reinforce and continue to consolidate the Brazilian democracy.

One of the main macroeconomic themes that influenced Brazilian markets' performance last quarter was the steepening of yield curves. Inflation being around 6% p.a., consistently above the target, has forced the BCB to re-start (late, per se) the hiking cycle. Besides the above mentioned deteriorating scenario, the USD has appreciated against the BRL (10.2% in the second quarter). This is a result of developed economies improving and absorbing capital flows until-then going into emerging markets.

As an example, there has been very limited appetite from international companies to make their first investment in infrastructure projects, which are essential to the development of the country (and to a sustainable GDP growth). As there is a latent and sustained demand for these projects, local companies (well positioned leaders) will have the opportunity to participate with much less competition, therefore with a likely higher IRR.

Also, just like good local companies that have a differentiated expertise should have more options to explore, the selloff has presented us with distinct opportunities. Managers that experienced redemptions or those that are considered "tourists" are selling all companies they invest in at any price, regardless of their quality. This environment, where Brazilian markets are "out of fashion", gives us the opportunity to increase investments or add new companies to our portfolio. Companies we wanted to partner with but have been waiting for the right margin of safety. Aliansce, Cetip and a new infrastructure company (still building the position) are examples of opportunities that were presented to us. We believe these companies have suffered for reasons mentioned above, and mainly because they were included in the "steepening of the curve" theme. We will discuss this further in this letter.

In the second quarter, our Long Short fund was down -7.7% and our Long Only fund -12.9%, while Ibovespa in USD was down -23.6%; in the last 12 months, our Long Short was up +1.4% , Long Only +7.9% vs. the Ibovespa in USD down -21.1%. The main contributors to our last quarter's performance were Kroton, Dufry and Linx (a short in PDG was also one of the main contributors in our Long Short fund); and detractors were Vale, Banks and Aliansce.

Some comments about our portfolio performance

In general, our portfolio has been doing well in this highly volatile environment. It is never good to see a negative number for a 6-month performance, after such hard work, but considering how negative investors have been towards Brazil, our companies are doing pretty well. A good portion of the attribution comes from the FX component. There have been several drivers for the BRL weakness: fears that the Chinese Economy would take a hard landing, Brazil´s largest trading partner; concerns that massive capital flows could shift from emerging economies into developed ones; the Brazilian Government and market participants not seeing eye to eye; "creative" fiscal / accounting instruments; and the US dollar being considered a natural hedge by many Brazilians in case inflation goes out of control. These are exactly the topics we have been monitoring in order to navigate such an uncertain environment.

Regarding our portfolio, some of our companies lost market value mostly due to macro challenges outlined. Below we detail our view on those names.

Aliansce

One of the largest detractors of our performance was Aliansce, our Shopping Mall owner/operator. Even though fundamentals and results continue to be sound, stock prices of considered to-be bond-like companies have suffered with higher long-term interest rates. However, the reasons why we have been investing in Aliansce for 3 years already go far beyond its predictable cash generation and inflation-linked contracts. It is important to notice that Aliansce's debt is pre-fixed, therefore there should be no meaningful impact from recent yield curve moves on its debt service cost.

Within its sector, Aliansce has developed and launched the highest number of malls and leasable area expansion in Brazil in the last 6 years. It focused on creating malls predominantly positioned on urban areas that lack quality retail infrastructure. That is why the company's sales and rents have been much higher than the average in the retail and shopping mall industry. Last year Aliansce grew 31.4% in revenues and 34.2% in net operating income. Even this year, in a tough environment for retailers (low growth), Aliansce shopping malls delivered, on average, same store sales growth above 10%. In the first quarter, revenues and net operating income growth of 46.2% and 46.5%, respectively.

Young malls, launched in under-served regions enabled Aliansce to accomplish these results, as the company created retail fortresses. In order to verify if our opinion was being influenced by our positive bias towards the company, we decided to re-visit Aliansce's most important malls in the last few months. We, once again, talked to operation managers, local and regional retailers, as well as partners in malls where Aliansce has a stake on or is responsible for day-to-day management. We continue to have a high conviction on this case, its expected results and valuation. After recent stock price drops in conjunction with the broad market selloff, we see this company as one of those rare investment opportunities (we consider ourselves lucky if we find two of these per year!); so we decided to increase our 3-year-long investment in the company. Using a simple metric, we see Aliansce trading at a 10.8% cap rate in real terms.

This simple valuation method makes us even more comfortable, as we see value that is not priced in. Sales of corporative buildings being developed in shopping mall areas are a good example, as these do not generate revenue today so they are excluded from the cap rate calculation.

To sum up, when we first invested in the company, 3 years ago, we did not expect that the stock's exceptional performance would be driven by a macro factor (flattening of yield curves, as we saw last year). We invested in Aliansce because of the quality of the company's assets and its management ability to develop and operate malls with a 17% average real return rate per year. The company has, in fact, been delivering returns even higher than expected. And it should prove to be an excellent investment even in a more adverse scenario.

Kroton

In the second quarter, a very positive breakthrough came out related to our largest investment. In April, a merger between Kroton and Anhanguera, its largest competitor, was announced. Kroton was already the largest education company in the world as per numbers of students, and this transaction adds another 490 thousand students. In sum, the company should finish the year with over 1 million students.

We are optimistic with the new industry leader to be formed given Kroton's integration track record throughout the last 4 years. Both companies complement each other in terms of regional presence as there is minimum overlap: they are competitors in only 4 out of 85 cities.

We have spent a great amount of time trying to understand and measure possible synergies and management challenges from the integration of the two leaders. Here is what we have been focusing on for the short-term: (i) Anhanguera due diligence process, identifying possible liabilities; (ii) questions regarding cultural differences among relevant partners that will remain in the new company; and (iii) definition of the management team and their mandates. Our main goal was to understand whether day-to-day operations would be run freely by Rodrigo Galindo and his team (who were in charge of Kroton in the past years), so that their successful style would continue to reign.

So far we have concluded that main partners are indeed aligned. They all agree to have Rodrigo Galindo and his team in charge and believe the new company should revert part of the gains of scale into quality improvements, becoming even stronger when compared to competitors. In our view, Anhanguera was already the most efficient company after Kroton and, together, important synergies (in costs, expenses and quality of new projects development) should emerge.

As this market is highly fragmented and, in general, education service providers (competitors) have been under-delivering, the merger should be well greeted by regulators and there should be no relevant restrictions from anti-trust agencies.

We believe a new large Brazilian corporation with a strong culture and good-quality products is being formed. This company should feed a pent-up demand lacking decent products. Considering valuation, we see Kroton's returns potentially above 24% per year in the next 3 years, considering synergies measured so far.

Constellation and our team

Our Annual Investors' Conference took place in the second quarter and we would like to thank all of you who attended, watched our presentations, listened to discussions with CEOs of our companies and attended the onsite visits. It was a pleasure to have you here and special thanks go to Renato Rique, Aliansce's CEO; Marcos Lutz, Cosan's CEO; and Rodrigo, Kroton's CEO, who all added tremendous value to our panels about the industries and businesses we invest in.

As per our team, we would like to share with you that there were two new additions to our investment team: João Vitor Fernandes and Rafael Monnerat Napoli joined in the second quarter; they were both selected candidates in our trainee program.

We are constantly talking to young people trying to find talent and bring good people to our company. Our trainee program has been an important piece to the development and growth of our team.

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

Constellation ASSET MANAGEMENT

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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%							-9.42%	332.28%

Exposure (Delta Adjusted)

Sector	% Long NAV
Services	19.43%
Education	18.20%
Financials	16.31%
Fuel distribution	13.00%
Infrastructure	7.56%
Metals & mining	6.03%
Consumer staples	5.62%
Utilities	4.67%
Consumer discretionary	2.64%
Homebuilders	2.60%
Others	1.93%
Ibov/Options	0.55%
Total	**98.52%**
Exposure to the BRL	97.14%

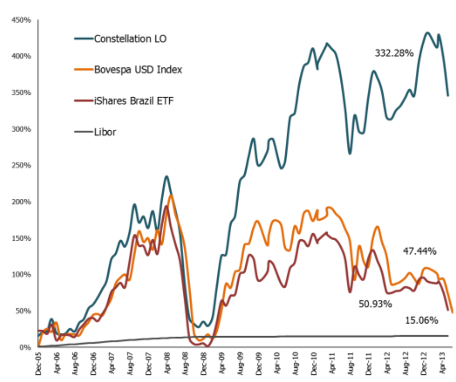
Overall Strategy Liquidity (1/3 of Average Daily Traded Volume)

Tenor	
1 Day	22.5%
1 Week	58.4%
1 Month	87.9%

Market Capitalization

>US$10 bn	15.0%
>US$ 1 bn and <US$10 bn	65.4%
<US$1 bn	18.1%
Total Equity Exposure	**98.5%**

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



Number of Positions

Stocks	26

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$ 858,219,581

Value per Share (net of all fees)

As of June 28th, 2013	**493.3803**

Sector Attribution

Underperformers	**% NAV**
Fuel Distribution	-1.17%
Financial	-0.93%
Education	-0.87%

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

Annualized Return	21.28%
Annualized Ibovespa USD Return	5.02%
Annualized Standard Deviation	33.50%
Ibovespa USD Annualized Standard Deviation	48.50%
# of Positive Months	58
# of Negative Months	33
Best Monthly Return	29.69%
Worst Monthly Return	-27.40%
ISIN:	KYG238261112

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Constellation Fund SPC Class B - Long Short

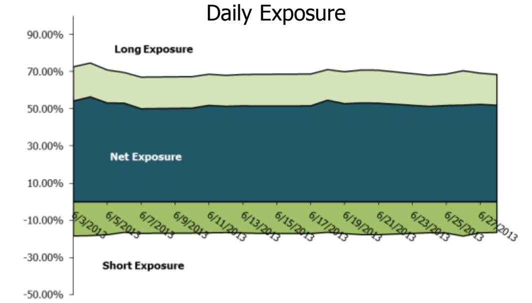
Fund Objective

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%							-5.34%	150.61%

Daily Exposure



Total Portfolio P/L (Gross of Performance Fee)

	Apr13	May13	Jun13	2013
Longs	1.31%	(0.29)%	(5.34)%	(1.79)%
Shorts	0.40%	0.59%	1.66%	2.74%
FX/FX Options/Fixed Income	0.58%	(4.04)%	(1.89)%	(4.97)%
Equity /Index Options	0.01%	(0.07)%	(0.17)%	(0.20)%
Others Expenses	(0.17)%	(0.17)%	(0.17)%	(1.03)%
Total	2.13%	(3.98)%	(5.91)%	(5.34)%

Sector Exposure (Delta Adjusted)

Sector	Long	Short	Gross	Net
Education	11.4%	0.0%	11.4%	11.4%
Financials	10.5%	0.0%	10.5%	10.5%
Services	10.0%	0.0%	10.0%	10.0%
Fuel distribution	7.2%	0.0%	7.2%	7.2%
Consumer staples	6.3%	0.0%	6.3%	6.3%
Metals & mining	5.2%	0.0%	5.2%	5.2%
Infrastructure	4.1%	0.0%	4.1%	4.1%
Utilities	2.2%	0.0%	2.2%	2.2%
Homebuilders	1.8%	0.0%	1.8%	1.8%
Consumer discretionary	1.5%	0.0%	1.5%	1.5%
Energy	1.5%	0.0%	1.5%	1.5%
Others	0.9%	0.0%	0.9%	0.9%
Healthcare	0.0%	-1.9%	1.9%	-1.9%
ETFs/IBOV/ Options	0.0%	-8.6%	8.6%	-8.6%
Total	**62.47%**	**-10.56%**	**73.03%**	**51.91%**
Exposure to the BRL				52.69%

Number of Equity Positions

Long	27
Short	2

Value per Share (Net of all Fees)

As of June 28th, 2013	**209.8305**

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

Tenor	Long	Short
1 Day	74.7%	93.3%
1 Week	98.3%	100.0%
1 Month	100.0%	100.0%

Market Capitalization

	Long	Short
>US$10 bn	15.3%	-8.7%
>US$ 1 bn and <US$10 bn	38.2%	-1.9%
<US$1 bn	9.0%	0.0%
Total Equity Exposure	62.5%	-10.6%

Main Characteristics

Inception Date*:	November 30, 2004.
Initial Investment:	US$100,000
Subsequent Investment:	US$50,000
Subscriptions:	Last Business Day of the month.
Redemptions:	Available series: monthly with 3 months prior notice.
Payments:	3 business days after the redemption day.
Advisory Fee:	2.0% per annum.
Performance Fee:	20% of the profit paid annually or upon redemption.
Net Asset Value:	Daily net of advisory fee.
AUM of the Strategy:	US$ 150,727,325

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

Annualized Return	9.09%
Annualized Standard Deviation	10.40%
Sharpe Ratio*	0.70%
# of Positive Months	60
# of Negative Months	43
Best Monthly Return	11.14%
Worst Monthly Return	-7.55%
ISIN:	KYG238261039

* Annualized T-Bill 90 daily return.