Constellation: Management Report 3Q15

Long Only Performance	Fund	Ibovespa in USD
YTD:	- 37.96%	- 40.21%
Last 12 months:	- 44.85%	- 48.95%
Annualized Return since inception:	+ 9.24%	- 2.65%

Long Short Performance	Fund
YTD:	- 17.03%
Last 12 months:	- 20.74%
Annualized Return since inception:	+ 5.59%

Dear Investor,

In the 3rd quarter the Long Only fund was down -30.43%, accumulating -37.96% for the year, in line with the Brazilian market. The bulk of the negative performance this year is due to the Brazilian Real depreciation, -48.12% ytd.

There is no doubt that Brazil has been a source of very negative news flow recently: sovereign downgrade by the S&P, a growing fiscal deficit, very weak economy, lack of political leadership, a government with little support in Congress, an unfolding corruption scandal (lava-jato), etc… All of this in a scenario of a sharp global correction in risk assets, specially emerging markets.

ETFs (in USD)	3Q15
India	-5.6%
US (SPX)	-6.9%
Mexico	-9.7%
Korea	-11.5%
Russia	-14.0%
Australia	-14.8%
South Africa	-18.0%
China	-23.1%
Colombia	-24.0%
Brazil	-33.0%

It is interesting to note that as of the date of the writing of this letter, the Ibovespa is doing much better in local currency terms year to date with most of the losses for international investors coming from the underperformance of the currency.

Our view is that Brazil is going through a painful cleansing process and will emerge stronger. As Karl Popper once said, "do not underestimate the power of an open society". If you would like us to send you a copy of Karl Popper's book "The Open Society and Its Enemies", please let us know. The strength of societies is to a large extent determined by the quality of their institutions, which are the formal and informal frameworks for human interaction.

These institutions – laws, customs, networks, organizations, etc. – enable or constrain the realization of an open, democratic and equitable society. They also determine a society's ability to absorb shocks and its sustainability. Brazil, with its free press and independent institutions is definitely an Open Society, and will whether the political and economic storm. What concerns us most is the environment for business/ earnings and therefore valuations.

Equity valuations can be summarized in three main components: (1) expected earnings per share, (2) the price earnings multiple and (3) expected dividends. For an international investor one should add (4) currency fluctuations. All of the aforementioned components have been in negative territory for the Brazilian market in the 3rd quarter.

1)Earnings for the majority of companies are compressed. Growing the top line at historical rates has been challenging. The Brazilian economy is doing poorly with an expected fall of -3.5% in real terms this year. Consumers are in deleveraging mode. On the other hand, most operating costs are growing. There have been sharp tariff readjustments for power and fuels. Salaries are not being readjusted at the recent high real rates, but are still growing at high single digits. All of this does not bode well for operating margins. To add insult to injury, interest rates are at recent highs, putting additional pressure on levered balance sheets. The hostile environment for companies' profits is forcing management to cut costs and run much leaner operations. Looking at the glass half full: in the expected cyclical pick-up (economies are cyclical after all) profits should expand nicely.

2)Multiples are near historical lows. This is explained by low earnings visibility, a gloomy view of Brazil's economic future and high interest rates (why bother with equities when interest rates are at 14%). Although some stocks are still relatively expensive (scarcity value of defensive businesses), most companies are trading at two standard deviations from historical average multiples. These multiples were only seen in severe crises like Asia-1997 and Lehman-2008.

3)Although earnings are compressed, given the low price earnings multiples, dividend yields are at historical highs. Large bellwether companies like Itaú, MRV, CCR and BRF, trade at above 5% dividend yields.

4)Finally, regarding the Brazilian Real, currency markets are definitely in overshooting mode. It is hard to know when the overshooting will stop or revert, but if international investors were selling USD at R$ 2.00 less than two years ago, now they are selling at a much more reasonable level, R$ 4.00. Although it does not seem so, the margin of safety today is much higher.

Everything considered, patient long term investors now have the opportunity to add to their Brazilian equity exposure at low multiples on cyclically depressed earnings with some margin of safety regarding dividends and the currency. The beauty of the public equity markets is that from time to time there are crises and forced sellers willing to dispose of high quality businesses at discounted prices. By the way, the price gap between private and public markets in Brazil is at the highest of the last decade. As Warren Buffett says: "Be Fearful When Others Are Greedy and Greedy When Others Are Fearful ..." Easier said than done, we would add.

We are slowly adding to our equity exposure benefiting from the indiscriminate selling. Citing El Erian: "Sudden market air pockets, such as the one a few weeks ago (and there will be lots more), can drag down even the best securities, offering investors interesting opportunities. This is particularly the case for shares at the two ends of the market liquidity spectrum: securities with limited liquidity, which experience disproportionate moves because just a few small transactions can easily reprice the whole complex; and securities that are so widely held that they end up serving as ATMs for investors lacking liquidity from other assets. Use the periodic bouts of sharp market rebounds to trade up in quality. In trading up into such securities, investors should be particularly mindful of the attributes that enable companies and sovereigns to successfully navigate the new (higher) volatility paradigm. These traits include robust balance sheets, low debt, good management and an operating edge that is hard for competitors to imitate. Use measured investing techniques (such as dollar cost-averaging) when taking on added exposure to fundamentally disrupted market segments that are subject to high mark-to-market risks: The change in the volatility paradigm adds to the travails of asset classes that already have been destabilized by fundamental demand and supply shocks -- such as oil and emerging markets. The resulting carnage offers selective opportunities that are likely to prove very remunerative over the longer-term." (Six Rules for Investing in Volatile Markets: Mohamed A. El- Erian, Bloomberg).

Regarding our companies, ABI and SAB have reached an informal agreement to form the dominant global brewer through US$116 Bn acquisition, one of the largest deals ever. This new company will extend its dominant position to other important markets such as Colombia, Ecuador, Peru and South Africa, and will have an impressive 60% of the global beer profit pool (and 30% of beer volumes), a very unique dominance.

This dominance is quite representative of a continuous strategy to seek large profit pools, which are usually markets both sizeable and concentrated. It all started with Brazil, and then Argentina, Canada, US, Mexico. The combination of a cost conscious corporate culture and high exposure to concentrated market yields top notch profitability in the beer industry and, in fact, in all consumer staples universe. This new company will have revenues of USD70 Bn and Ebitda of USD25 Bn – excessive concentration in markets like the US will require divestments, but there will also be synergies – and we expect Ebitda to exceed USD30Bn by 2019

ABI and Ambev have above average management stock ownership, and controlling shareholders are proven capital allocators, not only in beverages, but also in other consumer industries as it can be verified in Heinz for instance. There are a number of success stories of this group, following the same consistent approach, and we understand it will work once again with SAB. There are cost synergies opportunities (e.g. SAB's Latam business is more concentrated than Ambev's, but has lower margins), and also revenue synergies once ABI's unique portfolio of global brands (Budweiser, Stella Artois and Corona) can now be sold on SAB's strong distribution, and not only increase volume, but drive further growth in the premium beer category. In addition to that, SAB opens up a whole new opportunity in Africa, the next natural beer growth market.

We are excited about the prospects of value creation of this deal, and will soon share additional details of our assessment.

Conclusion

It is also with great satisfaction that we announce that Candido Gomes and William Uemura became partners at Constellation. They are welcome to our partnership and we are proud to share their success.

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.

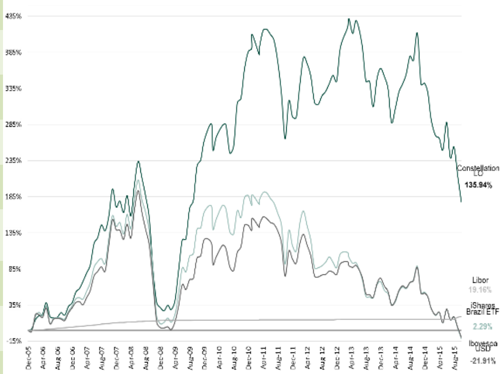
Share Appreciation (Net of all fees and audited by KPMG)

	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%	10,92%	-7.34%	4.39%	-11.38%	-11.42%	-11.38%				-37.96%	135.94%

Exposure (Delta Adjusted)

Sector	% Long NAV
Financials	26.16%
Consumer Staples	15.51%
Education	13.48%
Utilities	11.39%
Services	7.06%
Industrials	3.94%
Infrastructure	3.70%
Consumer Discretionary	2.32%
Total	**83.55%**
Exposure to BRL	99.88%

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



Value per Share (net of all fees)

As of September 30th, 2015	269.3018

Sector Attribution (month)

Outperformers	% NAV
Industrials	0.27%
Underperformers	**% NAV**
Financials	-0.97%
Infrastructure	-0.62%
Utilities	-0.49%

Number of Positions

Stocks	20

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

Tenor	
1 Day	51.8%
1 Week	78.2%
1 Month	90.1%

Market Capitalization

>US$10 bn	36.7%
>US$ 1 bn and <US$10 bn	31.8%
<US$1 bn	15.0%
Total Equity Exposure	**83.6%**

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 477,866,566

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

Annualized Return	9.24%
Annualized Ibovespa USD Return	-2.65%
Annualized Standard Deviation	31.70%
Ibovespa USD Annualized Standard Deviation	47.70%
# of Positive Months	48
# of Negative Months	70
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

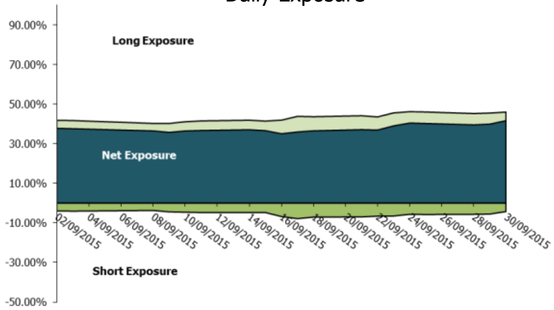
Fund Objective

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%	5.34%	-2.51%	2.27%	-5.74%	-5.94%	-6.20%				-17.03%	96.96%

Daily Exposure



Total Portfolio P/L (Gross of Performance Fee)

	Jul2015	Aug2015	Sep2015	2015
Longs	(1.53)%	(3.36)%	(1.86)%	(2.81)%
Shorts	0.21%	(0.04)%	(0.04)%	0.85%
FX/FX Options/Fixed Income	(4.26)%	(2.71)%	(4.41)%	(14.55)%
Equity /Index Options	0.06%	0.37%	0.31%	0.92%
Others Expenses	(0.21)%	(0.20)%	(0.20)%	(1.72)%
Total	**(5.74)%**	**(5.94)%**	**(6.20)%**	**(17.03)%**

Sector Exposure (Delta Adjusted)

Sector	Long	Short	Gross	Net
Financials	14.8%	0.0%	14.8%	14.8%
Consumer Staples	7.1%	0.0%	7.1%	7.1%
Services	5.3%	0.0%	5.3%	5.3%
Utilities	5.0%	0.0%	5.0%	5.0%
Education	6.3%	-1.3%	7.5%	5.0%
Infrastructure	3.2%	0.0%	3.2%	3.2%
Industrials	2.3%	0.0%	2.3%	2.3%
Consumer Discretionary	1.1%	0.0%	1.1%	1.1%
Energy	0.7%	0.0%	0.7%	0.7%
Homebuilders	0.1%	0.0%	0.1%	0.1%
ETFs/IBOV/ Options	0.0%	-3.1%	3.1%	-3.1%
Total	**45.9%**	**-4.4%**	**50.3%**	**41.6%**
Exposure to the BRL				56.7%

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

Tenor	Long	Short
1 Day	93.6%	100.0%
1 Week	100.0%	100.0%
1 Month	100.0%	100.0%

Main Characteristics

Inception Date*:	November 30, 2004.
Initial Investment:	US$100,000
Subsequent Investment:	US$50,000
Subscriptions:	Last Business Day of the month.
Redemptions:	Available series: monthly with 3 months prior notice.
Payments:	3 business days after the redemption day.
Advisory Fee:	1.5% per annum.
Performance Fee:	15% of the profit paid annually or upon redemption.
Net Asset Value	Daily net of advisory fee.
AUM of the Strategy:	US$ 63,968,292

Number of Equity Positions

Long	24
Short	2

Value per Share (Net of all Fees)

As of September 30th , 2015	164.8873

Market Capitalization

	Long	Short
>US$10 bn	20.2%	3.1%
>US$ 1 bn and <US$10 bn	19.3%	1.3%
<US$1 bn	6.5%	0.0%
Total Equity Exposure	**45.9%**	**4.4%**

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

Annualized Return	5.59%
Annualized Standard Deviation	11.20%
# of Positive Months	72
# of Negative Months	58
Best Monthly Return	11.14%
Worst Monthly Return	-8.51%
ISIN:	KYG238261039