Constellation: Management Report 4Q12

Long Only Performance	Fund	Ibovespa in USD
YTD:	+ 24.53%	- 1.95%
Annualized Return since inception:	+ 24.69%	+ 10.49%

Long Short Performance	Fund
YTD:	+ 6.96%
Annualized Return since inception:	+ 10.16%

Dear Investor,

We at Constellation are very pleased with our overall performance last year. We added five professionals, had a record number of training hours/ courses, lengthened the terms of our funds, and generated very decent absolute returns and significant Alpha. The Long Only fund was up 24.53% last year, compared to -1.95% for the Ibovespa in US$; and the Long Short was up 6.96%. We firmly believe that today we have the best team and clients we have ever had. In this letter we would like to give you a quick update on our performance and our business.

Two major issues contributed to the lackluster performance of the market in 2012, (1) economic growth in Brazil was very disappointing; the economy is expected to have grown 1.0% only, and (2) some major blue chips lost earnings power. Petrobrás lowered its production guidance; banks are experiencing lower returns on equity in a low interest rates environment and power companies had to give up returns to renew their concessions. On the other hand, some services/ domestic oriented companies are doing fine. These are the companies we have been focusing on. At Constellation we try to find talented people, running attractive business (with barriers to entry), trading at attractive prices. We are benchmark agnostic and patient. And we are glad to say that this strategy paid off nicely last year.

Our turnover in terms of names is not that high. The main contributors for last year's performance have been names you all know pretty well.

Kroton (for profit education): Rodrigo Galindo, the youngest CEO in our portfolio, and his team continue to deliver an outstanding performance. The focus on the turnaround in 2010/11 and FIES operations yielded surprising results. The ebitda margin target for 2014 brick and mortars operations was reached in 2012 (23%), while intakes and enrollments grew double digit organically, leading to an outstanding organic top line growth of 24%. Profitability improvement was followed by sound cash flow generation, R$200mm after Capex (9M12, 70% ebitda conversion to cash), which we see as recurring and therefore should accelerate balance sheet de-leveraging and boost EPS growth. We understand there is no better team in the sector to run such a strategic asset.

The Unopar acquisition in 2011 led Kroton to the leadership of distance learning in Brazil, and then the later acquisition of Uniasselvi created unmatched leadership, 24% market share with 270k students, in a business in which scale is crucial. We think there is more to come. Kroton is better positioned to deliver even extra improvements in quality, and we understand that the combination of quality and scale will be key to effectively strengthen barriers to entry.

It is worth mentioning that the FIES (Government sponsored student loans program) has been gaining momentum and represents an additional growth tailwind. Kroton's tight budget management has guaranteed outstanding control of costs and expenses, as such, we still see good growth prospects and profitability enhancement ahead of us. Scale led Kroton to a marginal ROIC higher than 25%, with better monitoring of the consolidated operation and a distinctive management team.

Aliansce (shopping malls): Renato Rique has been leading Aliansce through the most intense development period the company has ever been through, 13 new malls in 7 years. Aliansce's strong developing activity has built the youngest portfolio amongst large mall operators, and that, in turn, has led to 9 out of 13 quarters of the highest SSS (same store sales) in the industry. We understand that the combination of a young portfolio and consistently strong SSS past performance will lead to sound SSR (same store rent) growth in the coming years.

In addition, significant investments both in new developments as well as in acquisitions added fuel to the good performance of the company. There were 2 malls additions in Nov/2012 and one more in 2013. Aliansce is posed to accelerate its deleveraging until 2015, which should boost its EPS growth with distinctive visibility.

Given the outstanding capital allocation track record of Aliansce, we saw the recent equity offering (follow-on) as an opportunity to increase our position. There are still plenty of new mall opportunities in Brazil, in addition to increasing stakes in properties Aliansce already manages and knows very well. Even after large investments, consolidated ROIC is close to 10%, and we think it will be 14% in 2014.

Ecorodovias (infrastructure): we believe Ecorodovias, run by Marcelino Seras, is one of the most interesting infrastructure cases among Brazilian listed companies. Its toll road concessions continue to post steadily growing cash flows. This allowed the company to make important strategic moves in 2012, such as the acquisition of its 6th road in a public auction (BR-101) and the acquisition of a container port terminal located in Santos Port (Tecondi). Both acquisitions were accretive to shareholders from day one. We expect Ecorodovias to extract even more value from its operations, once it integrates its logistics operations with the container port terminal recently acquired – expected to take place in 2013.

Last year Ecorodovias partnered with Fraport (one of the world's largest airport operators, operating 13 airports in Asia, Europe, and the Americas and which main asset is the Frankfurt airport) to participate in the Brazilian government's airport privatization program. They carried out a very detailed study and were prepared to bid competitively; however the winning bid was so high that it reduced the expected return to a level that Ecorodovias considered below its hurdle of at least 9% IRR in real unlevered terms. Therefore, the company wisely decided to walk away. Nevertheless, the partnership between Ecorodovias and Fraport is still valid for the next auctions this year and next.

Dufry (travel retail): we believe Dufry, run by Julian Dias, is the most competent and well-positioned travel retailer in the world. Travel retail is a growing business, especially in emerging markets. Global air travel is expected to grow 4% per year in the next 10 years. In Asia and Latin America, expected growth rates are 6.8%. In Brazil specifically, the upcoming soccer World Cup (2014) and Olympics (2016), should be an extra booster. Retail sales in an airport that has global class operators (Dufry, Autogrill, Lagardère) are usually two times higher than in an airport with a local player.

In the last 6 years, Dufry acquired 9 companies and delivered fast and efficient integration. The consolidation process enhanced Dufry's bargaining power with its suppliers and created economies of scale, delivering a gross margin expansion of 710bps during this period. Dufry has also proven to be a disciplined capital allocator in its acquisitions, and the combination of high cash flow generation with good capital allocation is really strong. For the next 10 years, we expect the company to continue expanding its margins and growing top-line an average of 6% annually. The company has historically delivered organic growth above the global passenger traffic growth: CAGR of 7% from 2003 to 2011 versus the 4% average growth of global passenger traffic.

Cosan (energy and infrastructure): we believe Cosan, run by Rubens Ometto and Marcos Lutz, is currently one of the best positioned companies in the Energy & Infrastructure sector in Brazil. In 2012 it was able to add value to current operations and also create strategic new venues of growth and value creation to shareholders.

The acquisition and integration of the acquired Brazilian fuel distribution assets of Esso and Shell brought record high earnings to the company. Rumo (Sugar logistics) has been delivering fast growing profits and executing its investment plan successfully – to be concluded in 2013 when Rumo becomes cash flow positive. As per Sugar & Ethanol, the company has been growing and improving its margins even in current challenging market conditions.

Strategic moves this year were extremely important to determine Cosan's future. After a strict analysis of its assets, Cosan's management opted to disinvest in the sugar and derivatives retail operations (Cosan Alimentos) to focus on segments it has more expertise and can create more value. There were two strategic decisions taken in this context: Comgás acquisition, the largest natural gas distributor in Brazil, and the bid for a stake that will grant co-control of ALL, the largest railroad company in the country (current controllers are still analyzing the offer). We believe both Comgás as well as ALL to be premium assets that can create value and open new growth doors to Cosan.

In terms of performance detractors, last year the only relevant detractor was **Cemig** (power). As mentioned in previous letters Cemig was negatively impacted by Government measures to reduce energy costs in the country. Lower-than-expected tariffs and recovery values were in the measures and, surprisingly the Government included in the package 3 of Cemig's plants which concessions that were expected to be automatically renewed (with no loss). The company opted not to accept the new terms as for the Generation business and decided to maintain the concessions and their cash flows until expiration. We believe the company indeed made the best decisions to its shareholders, with no political influence. As per the Transmission segment, the Government improved the initially proposed terms and the company had the concession renewed. Looking forward, Cemig will continue its strategy to grow and consolidate the market with a focus on profitability.

On top of that, given the company's strong cash generation it will continue to be a high dividend paying stock. For 2012 Cemig announced much higher-than-expected dividends: close to 15% dividend yield and we expect 12.5% on average for the next 3 years.

Even though Cemig's share prices were the least affected by the new measures, we must acknowledge that there was permanent loss of capital here. We expect to make back our losses in dividends. The company says it will probably sue the Government, but in the mid-term the chances of winning are low.

There have not been many changes in our portfolio in the last few months. We are close to fully invested with 21 positions in the Long Only and 26 positions in the Long Short, including longs and shorts.

We believe 2013 will be an interesting year for our companies. Growth in Brazil should be higher and most of our businesses are in a stronger competitive position today (bigger, more scale, higher barriers of entry). There are some challenges though. Attracting and retaining talent continues to be an issue. We believe our companies to be among the first choices for young, well-educated people looking for their first jobs. All of them have attractive trainee programs in place. We are also working with some of them on lengthening the stock options/ incentive programs. We believe the three years average vesting period for most incentive programs to be too short. Management should think really long-term (forget Wall Street's pressure for short term results). Three years is too short.

Another challenge in 2013 will be heightened competition. Brazil is almost a must-be place for most global multinationals. Most are already here, but there will be plenty of newcomers. Capital is also abundant; KKR, Carlyle, Blackstone among others have plenty of money to buy businesses and fund expansion programs. Having a wide and deep moat has never been more important. In this regard we believe we are well positioned. Kroton is the dominant secondary education alternative in its regions. Aliansce has dominant properties in most of its markets. Dufry is the dominant global player, buying merchandise at the best prices. Lopes is the broker to hire in its markets (largest player in Brazil). In sum, although GDP growth in Brazil has been lackluster, there is plenty of room for competent businesses to grow and gain market share over smaller, and less efficient players. 2013 should continue to be a stock pickers' market.

Changing gears to our business, we are very proud of the performance of our team this year. Analysts had a record 1,836 meetings/ calls with companies. We also had record hours of training and travelling, from Manaus to Porto Alegre and from the West Coast, through Europe to Asia. We very rarely hire senior professionals, but this year we had the opportunity to bring two experienced professionals who are already delivering.

Having an aligned client base is maybe as important as having a strong investment team. In this respect Fabio, Camila and André did an excellent job this year, increasing assets under management even considering that we returned the money in our local Long Short vehicle. When we invest we want to stay for long. Therefore, it takes us a long time to understand the businesses and trust the management teams of the companies we invest in. We really appreciate clients that do a comprehensive due diligence process and really try to understand the way we invest. There are exceptions, but it has been our experience so far that clients that take longer to invest stay longer. As an investor, it is a pleasure to have long-term oriented clients. In the last two years we had net inflows and were able to add to our positions during crisis. This definitely added basis points to our performance.

Our partner/ PM Rodrigo Campos, an experienced investor, has been in charge of our currency and derivatives book. His mandate is, from time to time, together with the PMs, to add value through derivatives with a hedging bias. We try and measure everything we do. One of our rules is to "stop doing what is not working, and do more of what is working". The hedging book has been adding precious basis points, and also given us the stamina needed to add to losing positions due to macro factors, when we deem appropriate.

In terms of Operations, our COO Alex and his team did a wonderful job this year improving our robust infrastructure and systems. For the sake of the stability of the business, each one of us has a goal to have a replacement in place. Alex is doing a very good job coaching William Uemura, who is getting more senior by the day.

Regarding philanthropy general partners continued their support of institutions like Ismart www.ismart.org.br, Proa www.proa.org.br and Fundação Estudar www.estudar.org.br. All focused on improving education in Brazil.

We value your relationship and the trust you have placed in us by investing in Constellation. We really appreciate and encourage comments and suggestions to improve our client service/ operations and research process. If you do have any comment or idea that you believe could help our business/ portfolio please feel free to send an email, fb@const.com.br .

Sincerely,

Constellation Team

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.

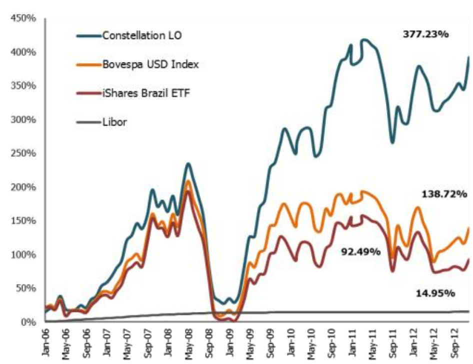
Share Appreciation (Net of all fees and audited by KPMG)

	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%

Exposure (Delta Adjusted)

Sector	% Long NAV
Education	19.05%
Financials	17.97%
Metals & Mining	14.39%
Services	11.33%
Fuel Distribution	8.38%
Utilities	7.30%
Homebuilders	6.94%
Consumer Staples	6.60%
Infrastructure	6.51%
Consumer Discretionary	3.52%
Healthcare	0.89%
IBOV/Options	-3.58%
Total	**99.29%**
Exposure to the BRL	**97.7%**

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



Number of Positions

Stocks	21

Value per Share (net of all fees)

As of December 28th, 2012	**544.6984**

Stock´s Sector Contribution

Outperformers	**% NAV**
Education	1.90%
Mining	1.25%
Services	0.94%
Underperformers	**% NAV**
RealEstate	-0.21%
Consumer Discretionary	-0.21%
Services	-0.09%

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

Tenor	
1 Day	31.6%
1 Week	55.0%
1 Month	87.8%

Market Capitalization

>US$10 bn	28.3%
>US$ 1 bn and <US$10 bn	68.9%
<US$1 bn	2.1%
Total Equity Exposure	**99.3%**

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$ 801.522.679

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

Annualized Return	24.69%
Annualized Ibovespa USD Return	10.49%
Annualized Standard Deviation	34.40%
Ibovespa USD Annualized Standard Deviation	48.50%
# of Positive Months	55
# of Negative Months	30
Best Monthly Return	29.69%
Worst Monthly Return	-27.40%
ISIN:	KYG238261112

Constellation Fund SPC Class B - Long Short

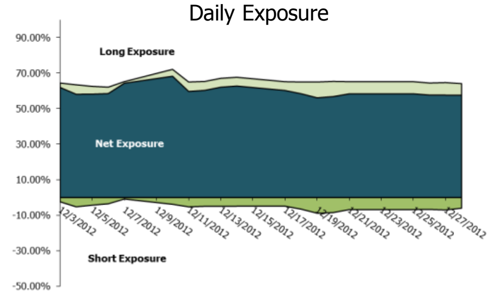
Fund Objective

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 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%

Daily Exposure



Total Portfolio P/L (Gross of Performance Fee)

	Oct12	Nov12	Dec12	2012
Longs	1.05%	1.19%	3.81%	16.89%
Shorts	0.16%	(0.69)%	(0.52)%	(3.60)%
FX/FX Options/Fixed Income	(0.07)%	(2.34)%	2.44%	(2.77)%
Equity /Index Options	(0.11)%	(0.45)%	0.25%	(0.42)%
Others Expenses	(0.17)%	(0.17)%	(0.19)%	(2.06)%
Total	0.86%	(2.46)%	5.80%	6.96%

Sector Exposure (Delta Adjusted)

Sector	Long	Short	Gross	Net
Education	11.8%	0.0%	11.8%	11.8%
Financials	12.0%	-0.9%	12.9%	11.1%
Metals & mining	8.9%	-0.7%	9.7%	8.2%
Services	7.1%	0.0%	7.1%	7.1%
Utilities	5.5%	0.0%	5.5%	5.5%
Sugar & Ethanol	5.3%	0.0%	5.3%	5.3%
Homebuilders	4.0%	0.0%	4.0%	4.0%
Consumer Staples	3.6%	0.0%	3.6%	3.6%
Infrastructure	3.3%	0.0%	3.3%	3.3%
Consumer Discretionary	1.6%	0.0%	1.6%	1.6%
Healthcare	0.8%	0.0%	0.8%	0.8%
Pulp & paper	0.0%	-1.3%	1.3%	-1.3%
ETFs/IBOV/ Options	0.0%	-3.6%	3.6%	-3.6%
Total	**64.04%**	**-6.50%**	**70.54%**	**57.54%**
Exposure to the BRL				**53.5%**

Number of Equity Positions

Long	23
Short	3

Value per Share (Net of all Fees)

As of December 28th, 2012	**221.6588**

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

Tenor	Long	Short
1 Day	64.1%	100.0%
1 Week	95.4%	100.0%
1 Month	100.0%	100.0%

Market Capitalization

	Long	Short
>US$10 bn	17.8%	4.5%
>US$ 1 bn and <US$10 bn	45.1%	2.0%
<US$1 bn	1.1%	0.0%
Total Equity Exposure	**64.0%**	**6.5%**

Main Characteristics

Inception Date*:	November 30, 2004.
Initial Investment:	US$100,000
Subsequent Investment:	US$50,000
Subscriptions:	Last Business Day of the month.
Redemptions:	Available series: monthly with 3 months prior notice.
Payments:	3 business days after the redemption day.
Advisory Fee:	2.0% per annum.
Performance Fee:	20% of the profit paid annually or upon redemption.
Net Asset Value:	Daily net of advisory fee.
AUM of the Strategy:	US$ 168.794.982

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

Annualized Return	10.16%
Annualized Standard Deviation	10.60%
Sharpe Ratio*	0.80%
# of Positive Months	57
# of Negative Months	40
Best Monthly Return	11.14%
Worst Monthly Return	-7.55%
ISIN:	KYG238261039

* Annualized T-Bill 90 daily return.