Constellation: Management Report 4Q13

Long Only Performance	Fund	Ibovespa in USD
YTD:	- 11.71%	- 26.85%
Last 12 months:	- 11.71%	- 26.85%
Annualized Return since inception:	+ 19.45%	+ 4.99%

Long Short Performance	Fund
YTD:	- 7.60%
Last 12 months:	- 7.60%
Annualized Return since inception:	+ 8.41%

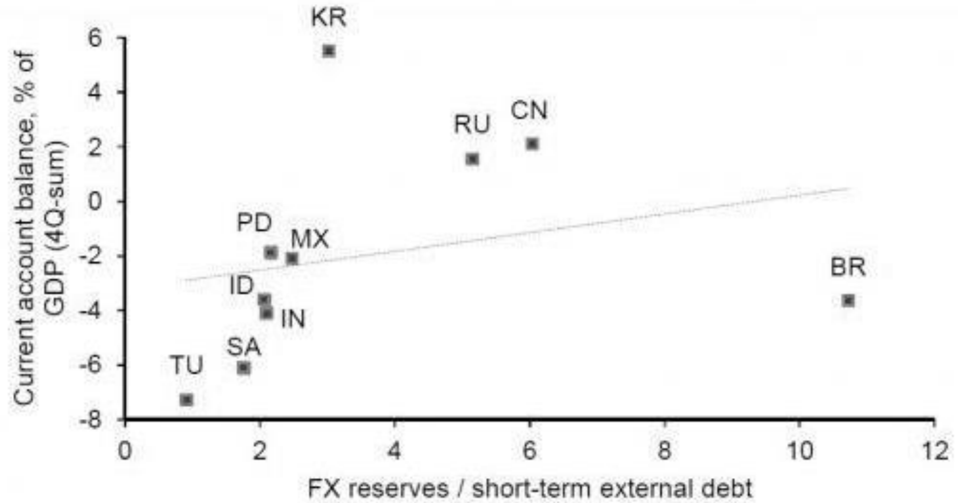
Dear Investor,

It was another year of weak performance in the Brazilian stock market. For the third consecutive year, our market was one of the worst performers among global liquid markets. In the last three years, the Ibovespa was down -47.6% in dollars. Part of this process is due to the disappointment with growth in emerging markets in general. But more importantly, this is mainly happening due to various issues particular to Brazil, one of them being the aversion of investors to the current government.

In 2013, our funds had their results influenced by this general pessimism with the Brazilian economy. With the Ibovespa down -15.5% and IBX-100 down -3.1% in 2013 (in BRL), our funds merely preserved investors' capital, appreciating 1.4% in BRL (local Long Only fund). We do not consider this a good result, given that our long-term goal is to compound investments for our investors at attractive rates in absolute terms, which unfortunately was not possible last year. Accumulated in the last 60 months, our local Long Only fund has delivered an annualized return of 26.7%, compared with the 6.5% of the Brazilian stock market (Ibovespa BRL).

For our funds denominated in dollars, our ability to preserve capital was not enough to prevent the value of assets from falling when converted to dollars. The Ibovespa depreciated -29.9%, the Long Short fund down -7.6% and the Long Only fund was down -11.7% due to the currency devaluation. If we had not used some FX hedging strategies, the result, assuming the same exposure to stocks, would have been worse in 1.7% for the Long Only fund.

Returning to the investment scenario, it is important to highlight what we call a "crisis of confidence" with the Brazilian economy. Currently, the valuation of assets (equities and long-term fixed income) implies a very high degree of risk, higher than what could be considered reasonable given the solvency of the country and the results of the companies. However, these high premiums are justified by our government’s recurring mistakes. The communication with investors is bad and has contaminated expectations. The mistakes in the fiscal accounts, added to some neglect with inflation, put a “question mark” in the country alongside much more fragile economies. The chart below demonstrates how the weaknesses of Brazil do not justify such a large discount compared to its peers in emerging markets. One can see that the current account deficit in Brazil is not much larger than the one presented by Mexico, for example, and the exposure to foreign short-term debt is the lowest among all comparable countries, given that Brazil maintains a high level of international reserves.



Source: IMF, BofA Merrill Lynch Global Research

What should be on investors' minds right now is the potential deterioration of the business environment, given that the solvency of the country should not be an issue. We do not expect any substantial improvements on inflationary pressures or fiscal policies, given that it is an election year. We also do not see further deterioration on either one of these issues. GDP is projected to continue expanding timidly in 2014, roughly in the same rate as last year (we do not expect more than 2.0% growth). As such, we are not counting on any tailwinds to growth; we have to rely on the ability of our companies to continue delivering consistent results.

In the overall economy, the good news are coming from (i) the expansion in infrastructure investments, given the privatization of roads and airports in the last few months (investments of roughly USD 100 bn in the next 3 years) and (ii) the new level of the Brazilian Real (-19.9% in the last two years) which should help exporters as well as those companies competing with imported products.

One important issue to note is that in this lackluster economic scenario, the silver lining are the operating results of our businesses as they have been able to pass on inflation, maintain margins and grow market share. As one knows, incumbents in emerging markets do have strong competitive advantages and tend to get out of crisis stronger.

Last year, our portfolio of companies grew earnings 17%, with only one exception due to the integration of an acquisition and not due to loss in market share or operational margins. It was a good year for our companies, even though the stock prices did not reflect that. Many of our companies have undertaken important transformations on these last years, getting ready to face a tougher economy. We have high conviction that many of them will see acceleration in earnings this year, independent of the macro scenario. We do not count on tailwinds from the economy, but a consistent gain in share of profit in some of the main industries we invest in.

Regarding risk allocation in the fund, we currently see opportunities in special companies and thesis, with potential gains in excess of 20% per year (which would almost double our capital in three years). Keeping the same capital in cash would yield 10% per year in BRL and practically zero in USD. With that said, we prefer the higher yield of investing in our companies, even with the volatility that comes along with it.

We will now discuss the results in the last 12 months from our most relevant positions. It is the best way for our investors to understand our conviction in these businesses and their capacity to remain competitive and profitable.

Kroton

In the 12 months ended Sep/2013, Kroton demonstrated once again that it is a differentiated company. Compared to the same period last year, revenues grew 54.8%, gross margin expanded over 700bps; EBITDA and ROIC nearly doubled, reaching BRL 627mm and 19.1% respectively. This increase came primarily from strong enrollments (+28.8% in onsite learning and +47.2 in distance learning), their capacity to improve course mix and the readjustment of tuitions slightly above inflation. This performance exceeded the growth of the higher education industry in Brazil and even the results of Kroton's largest competitors. That is, Kroton continues to gain market share.

Growing profitably is harder and more important than just growing the top-line, and that is precisely what Kroton has done in the last 12 months. The efforts of management to optimize the number of students per class, to offer more of the distance learning content on onsite classes, reduce evasion and improve economies of scale made the companies EBITDA margin and net margin expand 650bps and 730bps, respectively. Another important point is the fact that Kroton achieved this growth and profitability by investing very little additional capital – a common characteristic of good businesses. The company's invested capital increased only 3.1% in the period. We believe that the company's competitiveness, as evidenced by their above-market growth and profitability will be sustained by several pillars in the coming years: continuous improvement in teaching quality (proven by excellent grades in ENADE and IGC), economies of scale (which allow for investments in the quality of education and marketing), management culture and institutionalized meritocracy.

Cosan

Cosan managed to deliver good results in all segments it operates in 2013. The competitiveness of the Sugar & Ethanol industry in Brazil remains pressured by government subsidy to gas prices, but last year there were some positive developments. For Cosan, specifically, in addition to a better domestic market, good access to foreign markets due to its scale and commercial synergies with Shell allowed them to continue growing exports, where margins are higher. Thus, Cosan's Ebitda in this segment grew 34% in the last 12 months.

Fuel consumption in Brazil posted a healthy growth of 6.6% despite a weaker economy. Cosan increased sales by 8.8% in this same period, increasing its market share to 18.2% vs 17.8% one year before. With the continuous increase in efficiency, good management, franchise value and synergies of the combination of the assets with Shell and Esso, Cosan delivered EBITDA growth of 23% in this segment. The company ended the 3Q13 with recurrent margin of BRL 79.0 / m³, 10.3% higher than the margin of BRL $ 71.6 / m³ in 3Q12. In the gas distribution business, the recovery of tariffs granted by the regulator in 2013, coupled with strong 10% growth in new customers, Comgás Ebitda grew 52% in the last 12 months. Thus, consolidated Cosan's EBITDA grew 43% in the last 12 months and recurring earnings rose 58%, an outstanding performance.

Equatorial

In Equatorial's original business, power distribution in Maranhão, there was an 8% growth in profits. These are healthy results given that last year was a tariff revision year, when investments are reviewed and regulatory parameters are re-defined.

In the power distribution business in the state of Pará, the first year after the acquisition was marked by the implementation of Equatorial's management style. We were able to see improvement in the main indicators of quality of the distribution service, which translates into an improvement of the company's image and customer satisfaction. These actions should reflect in Celpa in the next few years, but we can already see substantial improvements in comparison to the acquisition date. The financial loss, which was BRL 233mm in 3Q12 was reversed into a profit of BRL 100mm in 3Q13.

Abril

During 2013, a number of relevant acquisitions were made, changing the revenue mix of the company, making it less dependent on traditional publishing. A good part of those acquisitions were financed with debt and a smaller part through a capital increase done at the beginning of 2013. The company leverage ratio went from 1.2 Net Debt/Ebitda to 2.7 on the third quarter, putting pressure on the 2013's ROE and ROIC. However, we do expect that the ROIC will expand again in the future as the marginal ROIC of the acquired companies is very high.

In relation to their Learning System business, Abril has been along the years delivering important market share gains at the private sector (from 13.5% in 2010 to 17.7& in 2013). We expect the company to continue to deliver a differentiated performance as their courses are achieving excellent results at the National Assessment Test (out of the 100 best schools that operates with Learning Systems, 30 use Abril products, while the 2nd competitor in the rank has only 9).

On another front, Abril experienced difficulties in making a smooth management transition on the recent acquired language business, Wise-Up , and as result of that, the number of new enrollments fell, pushing down Ebitda and Revenues. Given the relevance of this business to the company, we decided to dedicate more effort to help the company. We see Abril as a platform company in Education providing an essential service to a demanding population but with an operational structure that is not ideal. For this reason, we accepted the invitation to join the Board. Since we started our works, some interesting results were obtained: creation of an Integration Committee to promote a single management culture aligned with the long term strategic plan and the hiring of specialized consultants to help with the integration process of the acquired companies.

We believe 2014 will be an important year for Abril. Not only they should begin to unlock value but we should be able to observe a more structured and efficient management focused on expanding the market share without losing focus on profitability.

Aliansce

Aliansce's malls continued to deliver a strong performance during 2013. Over the last 16 quarters, 15 presented double digits growth. Adding this strong organic growth to the area expansion (launch of new malls and expansions), we saw revenues growing 30.5% on the last 12 months. As a good part of this growth was financed with debt (leverage is 45% higher in average), the cash flow generation (FFO) was impacted during the period. Given that a good part of the asset was launched in the fourth quarter of 2013, gains from those assets will start to flow in 2014.

In relation to the competition, the current macro environment with lower growth helps to highlight Aliansce's strengths. The company has been able to launch two new malls achieving initial occupancy above 92% and maintaining an average occupancy of 97% on its portfolio with delinquency below 2%. Looking ahead, those numbers plus the store owners' low occupancy cost (9.7%) and strong growth lead us to conclude that the Aliansce continues to have room to increase rents.

Anheuser-Bush InBev

Despite the challenging current macro scenario impacting ABI volumes, the company hase been able to deliver revenue growth through good execution and active pricing policy. The company's dominant position on the 3 largest global consumption pools (US, Brazil and Mexico), combined with its state of the art management, continue to result in leadership consolidation. ABI is bigger than any other competitor (owing a 43% of global profit pool, which is more than the sum of SAB, Heineken and Carlsberg with 37%). For every additional dollar in the industry, ABI is able to capture at least 50% more than its closest competitor.

The company's focus on innovations, premium segments, cost efficiency and trade marketing execution continues to strength its competitive position. Additionally, the company has sustained 15% ROIC and a distinctive cash conversion (80% of net profits on the last 12 months). For 2014, we are confident it will achieve additional efficiency gains, especially in Mexico. The growing Asia operations should also gradually deliver additional returns to the company. Finally, we see space for additional margin expansion on the coming quarters.

Lopes

There were clear competitive gains over the last 12 months. Considering that last year interest rates in Brazil went from 7.25% to 10% and the number on new developments launched and sales by the largest developers went down respectively 15.5% and 8.8%, the performance of Lopes could be seen as outstanding since it grew revenues at 9%. This performance is basically a result of market shares gains in the primary and secondary markets plus an earn-out payment from the mortgage origination program in association with Itau, which has been very successful.

This result also stands out when compared to its main competitor, Brazil Brokers, who saw its revenues going down by 4.3% in the same period. Besides, Lopes efforts to control and reduce costs also provided results. The company's ebitda and net margins expanded 168bps and 90bps respectively, in the same period. Thanks to those competitive gains, Lopes not only survived well but also advanced in an adverse economic environment, which is exactly what we expect from well managed companies.

M. Dias

Between 2006 and 2014 M. Dias acquired 4 companies in its region, enhancing the leadership in pasta and cookies to 56% and 54% respectively. The consolidation of the Northeast region provided the company with 3 important competitive advantages: supply, demand and scale; building important barriers of entry. Their shelf product dominance and ample portfolio of products represent a real fortress, allowing them to manage prices more efficiently (+16% in 18 months on pastas and +12% in cookies) and better defend against competition. In 2013 we saw the results of this strategy: while the retail and consumption market slowed, the company grew sales at 21%, well balanced between volume and price.

Gerdau

2013 was marked by a strong devaluation of the real that allowed the steel producers to increase prices and obtain better results on exports. Moreover, in the local market there was a sound market share gain with volume sales growth of 9% while the market apparently remained on sidelines. Another fact that helped the local business was the achievement of auto-sufficiency in iron ore supply, reducing their production costs. As a result, the ebitda margin in Brazil went from 16% to 20%. Results also benefited from the weaker Real as offshore units' results conversion were higher.

Gerdau's businesses in America didn't perform as expect. They suffered with SAP implementation, resulting in lower sales. This marginal deterioration impacted the ebitda margin given lower fixed costs dilution. Besides that, Gerdau continues to focus on cost control, with revenues growing more than expenses. Finally, they produced BRL 680mm in working capital gains mainly from better internal controls.

Linx

Linx is one of our most recent investments, initiated in the IPO in 2013. The company is an undisputable leader on ERP business for retail in Brazil. Since the IPO, the company has made 5 acquisitions, all efficiently integrated. They have been showing discipline on execution and becoming noted for such capacity.

We believe Linx should continue to grow consistently for many years. We should see the ROIC going down in 2014 from 40% to 25% given the larger capital allocated on the acquisition but for the following years the trend is to see it growing again.

To sum, 2014 is an election year and we should expect it to be more volatile with plenty of news coming from both the private and public sectors. A favorable result to the opposition could be an important catalyst for the markets as investors would increase confidence on the future perspectives. However, we should not count on this scenario but rather with the good performance of the companies and some macro turbulence along the way.

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.

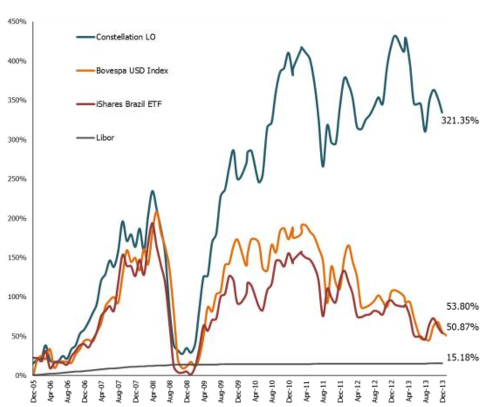
Share Appreciation (Net of all fees and audited by KPMG)

	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%

Exposure (Delta Adjusted)

Sector	% Long NAV
Education	20.18%
Services	17.11%
Financials	9.82%
Fuel Distribution	9.19%
Consumer Staples	7.86%
Metals & Mining	8.31%
Utilities	6.91%
Consumer Discretionary	8.38%
Industrials	4.19%
Homebuilders	2.60%
Infrastructure	0.76%
Total	**95.31%**
Exposure to the BRL	85.80%

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



Number of Positions

Stocks	28

Value per Share (net of all fees)

As of December 30th, 2013	480.9214

Sector Attribution

Outperformers	**% NAV**
Consumer Discretionary	0.20%
Industrials	0.19%
Metals & Mining	0.05%
Underperformers	**% NAV**
Services	-1.12%
Fuel Distribution	-0.72%
Financials	-0.63%

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

Tenor	
1 Day	26.8%
1 Week	49.5%
1 Month	75.1%

Market Capitalization

>US$10 bn	24.0%
>US$ 1 bn and <US$10 bn	55.9%
<US$1 bn	15.3%
Total Equity Exposure	**95.3%**

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$ 917,303,719

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

Annualized Return	19.45%
Annualized Ibovespa USD Return	4.99%
Annualized Standard Deviation	32.80%
Ibovespa USD Annualized Standard Deviation	47.90%
# of Positive Months	60
# of Negative Months	37
Best Monthly Return	29.69%
Worst Monthly Return	-27.40%
ISIN:	KYG238261112

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Constellation Fund SPC Class B - Long Short

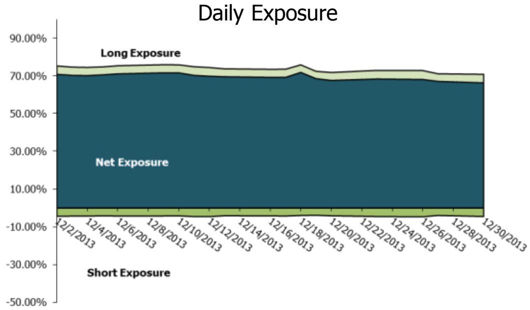
Fund Objective

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%	-0.13%	-6.29%	5.55%	3.29%	-1.31%	-3.08%	-7.60%	144.63%

Daily Exposure



Total Portfolio P/L (Gross of Performance Fee)

	Oct13	Nov13	Dec13	2013
Longs	2.86%	1.45%	(2.37)%	2.25%
Shorts	0.84%	0.54%	0.01%	1.74%
FX/FX Options/Fixed Income	(0.31)%	(3.08)%	(0.59)%	(8.89)%
Equity /Index Options	0.07%	(0.06)%	0.05%	(0.37)%
Others Expenses	(0.17)%	(0.18)%	(0.18)%	(2.08)%
Total	**3.29%**	**(1.33)%**	**(3.08)%**	**(7.60)%**

Sector Exposure (Delta Adjusted)

Sector	Long	Short	Gross	Net
Education	13.6%	0.0%	13.6%	13.6%
Services	12.2%	0.0%	12.2%	12.2%
Financials	8.8%	0.0%	8.8%	8.8%
Consumer staples	7.5%	0.0%	7.5%	7.5%
Fuel distribution	5.6%	0.0%	5.6%	5.6%
Metals & mining	5.5%	0.0%	5.5%	5.5%
Consumer discretionary	5.3%	0.0%	5.3%	5.3%
Utilities	4.8%	0.0%	4.8%	4.8%
Industrials	2.2%	0.0%	2.2%	2.2%
Homebuilders	4.2%	-3.4%	7.6%	0.8%
Energy	0.5%	0.0%	0.5%	0.5%
Infrastructure	0.7%	-1.2%	1.8%	-0.5%
Total	**70.82%**	**-4.55%**	**75.37%**	**66.27%**
Exposure to the BRL				58.50%

Number of Equity Positions

Long	28
Short	2

Value per Share (Net of all Fees)

As of December 30th, 2013	**204.8051**

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

Tenor	Long	Short
1 Day	62.0%	100.0%
1 Week	91.2%	100.0%
1 Month	100.0%	100.0%

Market Capitalization

	Long	Short
>US$10 bn	15.3%	0%
>US$ 1 bn and <US$10 bn	43.4%	-1.2%
<US$1 bn	12.1%	-3.4%
Total Equity Exposure	**70.8%**	**-4.5%**

Main Characteristics

Inception Date*:	November 30, 2004.
Initial Investment:	US$100,000
Subsequent Investment:	US$50,000
Subscriptions:	Last Business Day of the month.
Redemptions:	Available series: monthly with 3 months prior notice.
Payments:	3 business days after the redemption day.
Advisory Fee:	2.0% per annum.
Performance Fee:	20% of the profit paid annually or upon redemption.
Net Asset Value:	Daily net of advisory fee.
AUM of the Strategy:	US$ 134,819,193

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

Annualized Return	8.41%
Annualized Standard Deviation	10.60%
Sharpe Ratio*	0.62%
# of Positive Months	64
# of Negative Months	45
Best Monthly Return	11.14%
Worst Monthly Return	-7.55%
ISIN:	KYG238261039

* Annualized T-Bill 90 daily return.