Constellation: Management Report 4Q15

Long Only Performance	Fund	Ibovespa in USD
2015	-36.84%	-42.34%
Annualized return since inception	9.20%	-2.88%

Long Short Performance	Fund
2015	-15.66%
Annualized return since inception	5.63%

For investors, 2015 was a year to forget. Equity indices in general disappointed. Brazil was no exception. Although in local currency, the market fell 13.31%, bad but not a disaster, for the USD denominated investor the loss of 42.34% in the Ibovespa was a big blow. Constellation outperformed the market significantly in local currency. In the offshore funds the inescapable truth is that the currency did hurt.

Brazil was not the only disappointing market in 2015, but it was one of the worst. Due to bad choices in economic policies in the last several years the local economy contracted 3.7% in real terms, with inflation at 10.7% and record high interest rates of 14.25%. Corporate earnings in general contracted. Companies are finding it hard to grow the top-line in a weak economy, and are facing higher cost due to power and fuel price increases. To add insult to injury, high interest rates are hurting companies with levered balance sheets. Our companies are some of the precious few that are doing relatively well.

Is there any hope for Brazilian businesses in 2016? On a macro level, the good news is that more and more people are convinced that structural reforms are needed. Dilma, by and large a "socialist", is talking about the need to reform labor laws and Social Security. There seems to be very little room for non-orthodox economic adventures. One silver lining is that the depreciation of the BRL is having a very positive impact on exporters and on the foreign accounts. The bigger challenge is the lack of political leadership to pass reforms. The main piece of good news is that there will be a transition in leadership either in the 2018 elections (markets should anticipate change much earlier) or sooner in an impeachment process. We believe that Brazil will be one of the big positive surprises in the coming years. Given the size of the market (relevant weight in global indices) and the quality of the public companies, Brazil will stay on the radar screen of global investors. When and if the outlook improves, flows will be massive, attracted by abnormally high rates and decade low equity valuations. Recent changes in leadership in Mexico, India and Argentina rewarded investors nicely.

From an equity investor's perspective, there is no question that there is value on the table. From times to times, the market offers you a chance to buy exceptional businesses at low multiples of depreciated earnings. We see upsides in our businesses and their stocks of more than 100% in 3 years. It's not a matter of if, but when. For the investor the challenges are staying power and opportunity cost of capital. The international investor must endure a volatile currency. The local investor has a very compelling opportunity cost of capital of 14% per year. In this regard, we are happy to have a client base of high quality.

While investors wait for macro changes, companies have to adapt to a lackluster economy. In such a scenario, the strong businesses get stronger. Leaders with strong balance sheets and consumer franchises suffer much less and consolidate weaker competitors. In all recent crises, the leaders increased their market share and got out stronger.

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Our companies in 2015

More important than the stock performance of our companies last year, is the operational performance of the businesses. As Warren Buffett tells his managers: "I want you to grow and widen the moat every year. That is your primary job". In 2015, all of our companies faced challenges but did grow their moats.

Itaú

The macro scenario presented several challenges to Itaú last year, and this will still be the case in 2016. Comparatively, Itaú has been navigating well through the storm. Net interest margin after provisions grew 9% in the 9M15 which, combined with strong trading results and a 10% growth in service fees, led to 21% EPS growth (9M15). These results were achieved alongside better capital ratios: 12.3% Tier I Capital ratio vs 12.1% a year earlier. We believe that, once again we should see strong, well-managed companies like Itaú largely outperforming its peers in the tough quarters to come.

On a negative note, provision expenses increased 40% YTD, and should pressure earnings in 2016, combined with higher income tax rates. After several years of sequential EPS growth, earnings may decline approximately 10% in 2016. We still believe Itaú is an attractive investment. It is worth noting that even considering the depressed earnings (the worst recession in decades) the business will deliver an ROE of 19-20%. Additionally, even with an expected EPS decline of almost 10%, the stock trades at 1.25x P/BV and 6.8x P/E (average historical range of 6.5x to 12x), in a much stronger relative competitive position.

Lojas Renner

Same-store-sales (SSS) growth of +14.4% and +29% EPS growth in 9M15! Few would expect a large apparel retailer in Brazil to deliver such robust results during a strong recession. This is what Lojas Renner delivered so far in 2015, when domestic apparel sales decreased 5%. Renner’s performance gap vs peers has widened significantly. The strong continue getting stronger. This was not a one-off performance. Renner has been continuously moving towards becoming a fashion retailer, a more agile corporation and optimizing its value chain. In the last 5 years, Renner was consistently assertive, delivering accumulated SSS growth of 52% (vs 40% of local CPI), improving its Ebitda Margin from 15% to 19% and doubling its store base and EPS. Strategic clarity, owner mentality and execution focus explained such an outstanding performance. We believe that this will continue to be the case in the future. This year will be challenging for the Brazilian consumer, but we expect that a differentiated and consistent positioning will again benefit Renner vis-à-vis its competitors. Initiatives in the supply chain (e.g. unit SKU picking) should also support Renner's profitability. We see Renner trading at 18x P/E and an annual IRR of 24%.

Kroton

The largest detractor of the year was our long-standing position in Kroton Educacional (the largest post secondary education company in Brazil). As we have discussed during all of last year, the abrupt changes in the public financing rules strongly affected the company’s shares, leading to a 38% correction.

Despite the severe reaction on the share price, Kroton has posted good operational numbers in 2015: 5% increase in total student base, reaching more than 1 mn undergrad students. The distance learning segment grew intakes at 8.5%, reaching 315 thousand new students during the year. In the onsite business – despite the reduction in student loans availability (-54.3%), the company managed to maintain its intake level stable (+0.25%) with more than 180 thousand new students (gross intakes). These accomplishments are strong evidences that: (1) the company has a great management team with close control of the operation and, (2) its nine different brands are still adding value to their students, enhancing Kroton's regional moats. In a tough year, the company reached a record estimated market share of 48% for the onsite business and 65% for the distance-learning segment.

Our investment in Kroton, even after last year’s strong correction, is still generating a 55% IRR to our funds, during the last 5 years. Political-economic turmoil and government intervention made the 12 month-forward P/E multiple contract from an historical 16x to the current 7.5x, leading us to an expected ~30% annual IRR for the next 3 years.

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Somos Educação

Somos Educação (former Abril Educação) was one of our largest holdings during last year and ended up as a good contributor to the fund. Early in February, Tarpon, who had acquired 20% of the company in 2014, acquired the remaining stake held by the Civita Family paying a premium of 22% versus the market price. As this acquisition configured an effective change in control, with Tarpon becoming the major shareholder, they had to extend the same proposal to all of the minority shareholders. Following the change in control (Tarpon now holds circa 75% of the total capital), several changes were made in the company's management structure with Eduardo Mufarej assuming as the new CEO, substituting Mario Ghio. With these changes, the company underwent a thorough review of all its businesses and strategy going forward, deciding to focus mainly on high quality education services (books, learning systems, language courses for children, among other complementary products) and operating its own schools. In line with this strategy, they finalized two major transactions at the end of 2015, namely the sale of Wise Up (English courses focused on young/working adults) and the acquisition of Saraiva Educação (among the largest publishers and learning systems companies in Brazil). We expect the company to show resilient results in 2016 mainly due to the innate characteristics of their businesses and new growth initiatives. Integration with Saraiva has already begun and should be finalized throughout the year, bringing synergies in costs and revenues.

Equatorial

One of our current largest investments, Equatorial Energia had a great year in 2015. Electricity demand in the company's concession areas has remained healthy, growing at a combined 2.4% in 9M15, despite the slowdown in the Brazilian economy. The main highlight of the year came from Celpa, acquired in 2012. Celpa ended the 3Q15 with an energy loss ratio of 31.3%, down 5.2 percentage points from 2 years ago. Ebitda grew an astonishing 69% in 9M15. We still see plenty of room for improvement, as the management team has sustained its relentless focus on efficiency gains. The company's new level of cash flow generation and low indebtedness should allow Equatorial either to provide a solid dividend yield (~9% potential yield), or to expand into new growth opportunities. Equatorial trades at 11x P/E 2016, with an expected IRR of 23% per year.

There have been so many developments this last quarter that we wanted to give you a comprehensive picture of our companies current operational performance. Forgive us for such a long letter. We really want to give you a full picture. ABI is one of our largest an most exciting stories.

Anheuser Busch Inbev

"For Lemann, Telles and Sicupira, culture is not in support of strategy; culture is the strategy." - Jim Collins, Dream Big's preface

Anheuser Busch Inbev has been one of our main positions since 2008, and also one of the main contributors. Since then, Anheuser Busch acquisition was completed, Modelo was acquired, and in 2015, they reached an agreement with SAB Miller's board and main shareholders to acquire SAB.

Culture and capital allocation have been playing a central role in the development of this company, and we understand it will still be the case in the years to come.

The story of this group that started in 1989 with the acquisition of Brahma (a local brewery in Brazil) and is now one of the largest and best managed consumer companies in the world is key to explain why we think there is still material value creation to come.

We start our story with a piece of Ambev's 2001 earnings call transcript:

"Marcel Telles: (Ambev's CEO at that time, and currently part of ABI's controlling group and member of ABI's Board of Directors)

2001 was a challenging year. We started out prepared for growth and economic stability in our market. But instead we faced a strong devaluation of the Rea, the power rationing, and the slow agony of our neighbor Argentina with all implications on our market. We did achieve our financial targets, Ebitda close to BRL 2 billion and EVA of BRL 355 million, but did not consistently advance our long term strategic initiatives, specifically revenue management.

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We increased our revenues per hectoliter by modeling our cost. But we didn't do so as precisely or as effectively as we were able to do in 2000. The result was that the final consumer felt price activities, which is against our strategy. Increases in consumer prices in the third straight year of stable per capita income in Brazil undermined the beer market, which is part of the reason for the decline in volumes this quarter. Next quarter, due to all that and to other factors, we may see an even stronger decline. While we extracted synergies from the merger, the drive for operational efficiency lost focus as currency and electricity supply issues dominated our attention. Building on the lessons from last year in 2002, we will impose upon ourselves the following challenges. First, focusing totally again in revenue management and second capturing productivity and efficiency improvements that are totally within our control. While performance against financial targets is essential, our long-term strategic plan is what's most important. The opportunities AmBev represents are huge, but we must be sure to raise the bar for our performance every year and to capture them. I will now ask Brito to talk about our beer business.

Carlos Brito: (Ambev's Sales Director at the time, and currently ABI's CEO)

Well, thanks, Marcel. 2001 has been a very tough year. In the first quarter of 2001, our growth year over year was 6%, but this rate of growth was never – not even close to the case for the other quarters. The second quarter saw no growth. The third quarter had a negative 2% and the fourth quarter a negative 4.4%. Our 2001 volume was flat on a comparable basis with the year 2000. The 29% increase in our revenues per hectoliter was a result of more direct distribution, better sales mix be it product or package and the price adjustment we implemented last year. On average, we did gain share year over year from 69.1% for the full year 2000 to 69.5% for the full year 2001.

This could be the end – very well be the end of my beer sales review of 2001, but this would be incomplete. In fact, despite the revenue and margin gains of 2001, we're not happy with the way we orchestrated our sales efforts. First, because we did not do a good enough job of sheltering the consumer for most of the price increases of last year. Second, because in not doing so, we lost some share in the last four months of 2001 and the market contracted somewhat. Third, because as Marcel mentioned, we did not achieve all the cost savings we were capable of. In the year 2002 we want to fine-tune our sales execution in order to keep the same level of profitability that we achieved by year-end, but with a different combination between the main drivers of our business. Here, sales volume, pricing, and selling and marketing expenses. In other words, we have a target of bringing increased levels of quality for new levels of profitability.

Also in the year 2002, we had three focus areas. First one is to roll back consumer prices of our products, whatever we have increased at the point of sale margin expanded beyond our own pricing. Second, invest in new tools to customize prices in point of sales. And more specific, we are changing our handhelds with our sales force for better ones and with this enhanced equipment, we'll be able to use software that will help volume and price execution at the point of sale. And thirdly, develop strategies to deal more effectively with the low price beer segment that grew recently.

On the per capita front, we have just completed the consumer study that showed us big opportunities on how to explore new consumption occasion. Based on this study, we have reviewed some of our execution standards to account for different opportunities and needs of different channels. The preferences for our beer brands have grown from 79% to 83%. This growth shows you how efficient our sales and marketing investments have been in capturing an even bigger share of the consumer preference. The challenge we have in the sales department is to translate in market share what the consumers already have in preference."

Brazil was facing a challenging macro situation, energy rationing, and GDP had grown only 1.39% in 2001, while Ambev delivered 32% ebitda growth, and 67% EPS growth. Most management teams would be thrilled with such performance.

Ambev's relentless management was not satisfied with that; in fact, they were clearly disappointed at their under-delivery (according to their standards and long-term strategic goals). This continuous quest for excellence on ABI's culture is a core pillar for the outstanding and consistent results we have been seeing, even in challenging times.

Ambev has consolidated not only its market dominance, but has also excelled every meaningful value lever we can analyze. One metric we focus on because we understand it summarizes some of these levers, is the Ebitda/hL, that is how much profit it generates out of every liter of beer. From 2001 to 2014 in Brazil, Ambev increased 4x the profit it generates out of every liter of beer sold. On top of that, it also grew volumes 3% a year, therefore multiplying Ebitda 6x in the period, an unparalleled performance in its industry.

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Brazil Beer, BRL mn	2001	2005	2009	2014
Volume (M hL)	**59,0**	**62,5**	**76,3**	**86,9**
Ebitda	**1,775**	**3,731**	**5,883**	**10,744**
Ebitda Margin	36,8%	46,0%	48,8%	52,5%
Ebitda/hL	**30.1**	**59.7**	**77.1**	**123.6**

Another important metric that Ambev's culture has been excelling is working capital management, which is now the industry benchmark. It did not change overnight, but continuously improved. The result of this continuous improvement is that more than 100% of that profit per liter sold converts in cash. It is very difficult to compete with such organization.

Ambev Consolidated, BRL mn	2001	2005	2009	2014
Working Capital	**1,038**	**1,444**	**1,660**	**(2,269)**
% of Sales	16%	9%	7%	-6%
Cash from Operations	**1,332**	**2,839**	**10,611**	**15,346**
% of Sales	20%	18%	46%	40%
Return on Invested Capital	**17.9%**	**22.5%**	**26.6%**	**39.2%**

Ambev kept pouring crocodiles in its moat in the markets it operates (is 7x the #2 Brazilian beer player, with an unmatched scale, brands, pricing power and distribution network) and became the most profitable brewer globally.

Finding, training and retaining the adequate team of fanatics that fit in this culture is a challenge that this group chose, and has been executing really well. This drive, high stock ownership in the management team and owner mentality are also present in other examples that follow the same culture.

Lojas Americanas (LAME) has been the best performing retailer in Brazil for many years. In the past 10 years, its accumulated SSS growth is staggering 171% vs 76% of the local CPI. Its tight ship excels in important metrics: EBIT margin expanded from 11.5% to 14.5% (impressive for a staples retailer), operating working capital decreased from 8.6% of revenues to -1% and, as a result of those, ROIC improved from 17% to 25%. Lojas Americanas continues to be an operating benchmark not only in Brazil, but globally.

ABI, Ambev and Lojas Americanas are extremely cost-conscious, share this execution focus, and are good examples of Jim Collins's hedgehog concept: they understand what makes them special and focus on that; by doing that, they have become benchmarks in their industries.

"Efficiency is required over time in capitalism; I really tip my hat to what the 3G people have done." - Warren Buffet

Heinz is another recent story that changed course rapidly under this culture. Iconic brands and products, and strong distribution were there already when this culture took reins at Heinz, but profitability potential was unlocked:

H. J. Heinz	*fiscal year ended in*					5 Year Average	Best in 5 years	2014 (1st complete year under 3G's rule)
	30/apr/09	30/apr/10	30/apr/11	30/apr/12	30/apr/13			
Adjusted Ebit	**1,502**	**1,559**	**1,687**	**1,502**	**1,661**			**2,309**
Ebit Margin (%)	15.0%	14.9%	16.0%	13.1%	14.4%	**14.7%**	**16.0%**	**21.1%**
Working Capital	**1,163**	**1,036**	**1,152**	**943**	**896**			**384**
% of Sales	11.6%	9.9%	10.9%	8.2%	7.8%	**9.7%**	**7.8%**	**3.5%**
Operating Cash Flow	**1,166**	**1,262**	**1,583**	**1,493**	**1,390**			**2,142**
% of Sales	11.6%	12.0%	15.0%	13.0%	12.1%	**12.7%**	**15.0%**	**19.6%**

(Source: H.J. Heinz financial reports & Constellation estimates)

Meaningful improvement was clear in short time, higher margins, better working capital management and cash flow conversion, quite similar to what happened in other acquisitions such as Anheuser Busch and Modelo. It did not take rocket scientists to accomplish that, but a new and aligned management team, with well-defined culture and willing to work hard.

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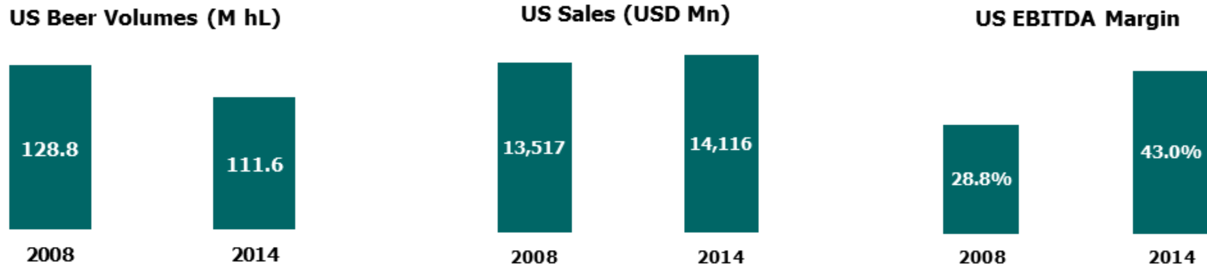
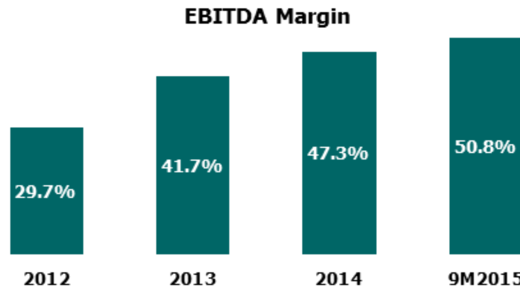
In 2008, InBev acquired Anheuser Busch in a USD 52 bn deal. Indebtedness increased significantly in a cloudy global economic environment, leverage went higher than 5x Net Debt/Ebitda.

Shortly before its acquisition, Anheuser Busch launched a program that aimed to reduce costs and expenses by USD 1 bn. Initially, InBev indicated that it could increase the program's target by USD 500 mn. ABI ended up delivering USD 2.3bn in synergies in 3 years, 17% of Anheuser Busch revenues.

Cost-conscious approach made the difference and was the main contributor for margin improvements. Despite volume headwinds – between 2008 and 2014 beer volumes contracted 13.5% – ABInBev's management was capable of doubling Ebitda per hL by delivering material margin increase (more than 2x higher than #2 brewer, MillerCoors) in the largest beer profit pool in the world.



Then, in 2013, ABInbev acquired Grupo Modelo and became the leader of the fourth largest beer profit pool, Mexico. At that time, ABI expected to deliver USD 1 bn of cost synergies (15% of Modelo's revenue) by the end of 2016 – which they are on track to deliver – and the company's margin is now 2x the #2 player (Heineken). They have also over delivered working capital savings, initially expected at USD 500 mn.



We understand that ABI's culture will once again work in SAB Miller's acquisition, and we expected additional value creation to shareholders.

The ABI+SAB Deal

In November 2015 ABI announced that it had reached an agreement with SAB Miller's board and main shareholders to acquire SAB Miller. We understand that this is a strategic move and the resulting company will be able to achieve goals that were not feasible otherwise.

The acquisition involves an equity value of USD 106 Bn (one of the largest deals ever) and the new company will have revenues of USD 65 Bn and Ebitda of USD 25 Bn (pre-synergies). Recently, ABI announced an agreement with MolsonCoors to sell SAB's stake in MillerCoors for USD 12 Bn, bringing the acquisition value to USD 94 Bn. According to our estimates, the implied transaction multiple before synergies, is 17x Ebitda.

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The complementary geographic footprint of ABI and SAB will create a dominant player in several attractive markets – they will have 2/3 of the global beer profit pool, a very uncommon dominance. This new company will extend its dominant position to other important markets such as Colombia, Peru and South Africa and will diversify ABI's exposure to regions with stronger growth prospects.

EBIT Breakdown	ABI	SAB+ABI
Latin America	39.9%	40.0%
Europe	5.9%	7.5%
North America	39.3%	29.4%
Mexico	11.6%	8.7%
Africa	0.0%	9.2%
Asia Pacific	3.3%	5.3%

It is worth noting that ~60% of ABI+SAB's Ebit (Earnings before interest and taxes) will be derived from regions in which they are the #1 player. This dominance is quite representative of a continuous strategy to seek large profit pools, which are markets both large and concentrated.

We understand that there are sizeable cost synergies opportunities. For instance, SAB's Latam business is more concentrated than Ambev's (market shares higher than 90%), but has lower margins. If we match SAB's Latam margin with ABI's, we estimate a USD 350 Mn gain (2% of SAB's revenue, 15% of expected synergies).

ABI estimated incremental recurring run-rate pre-tax cost synergies of at least USD 1.4 Bn per annum, on top of SAB's standalone savings program of USD 1.05 Bn per annum – USD 2.45 Bn cost savings program, 12% of SAB's revenue. This guidance was better than we estimated originally and, we do not discard the possibility of over-delivery once again. These cost synergies (phased in 4 years) would bring the acquisition multiple to 12x Ebitda.

Additionally, we understand that there are also revenue synergies: ABI will now be able to leverage on SAB's strong distribution channel to distribute its unique portfolio of global brands (Budweiser, Stella Artois and Corona). This brings not only volume opportunities, but also drive further premiumisation, key for the business's long-term profitability. We estimate normalized incremental revenues of at least USD 1 Bn.

We have also identified working capital opportunities. Benchmarking ABI levels to SAB brings almost USD 1 bn in rationalization potential (3.5% of SAB revenues).

In summary, after taking into account the synergies, our expected IRR in USD is 15% per annum, in one of the best-managed consumer companies in the world, unmatched cash flow conversion and good EPS perspectives.

Former ABI's controlling shareholders (Brazilians and Belgium Families) will still hold a 43.5% interest in the new company and will appoint 9 of 15 board members.

Shareholders structure	ABI + SAB
Stichting InBev	**34,4%**
Belgium Families	17,2%
Brazilians	17,2%
Belgium Families	**9,1%**
Altria	**10,7%**
SD Family	**5,6%**
Free float	**40,0%**

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An important definition of the new board is that ABI's Controlling Shareholders will appoint the Chairman of the Compensation committee, which is key for the culture implementation that will follow the acquisition. In addition to that, the same controlling group will also appoint the majority of the Nomination Committee (whose principal role is to guide the Board appointment, identify and retain key talents) which we also view as critical.

We are very excited with the opportunity of being shareholders of this unique company, with a management team that we admire and is highly aligned with shareholders' interests.

Conclusion

While the Brazilian economy is struggling, but moving forward, our companies are improving. Brazil has many investment opportunities in large scale and is eligible to most of global investors. It wouldn't be surprising if, in 4 years' time, one of the best performing global assets is Brazil.

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.

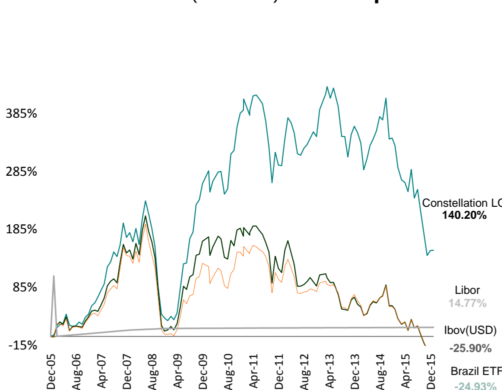
Share Appreciation (Net of all fees and audited by KPMG)

	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%	5.27%	0.24%	-3.53%	-36.84%	140.20%

Exposure (Delta Adjusted)

Sector	% Long NAV
Financials	23.06%
Consumer Staples	16.81%
Utilities	13.88%
Services	8.44%
Education	7.88%
Infrastructure	4.61%
Consumer Discretionary	4.20%
Homebuilders	3.89%
Industrials	3.50%
Total	86.29%
Exposure to BRL	98.32%

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



Value per Share (net of all fees)

As of December 30th, 2015	274.1369

Sector Attribution (month)

Outperformers	% NAV
Education	0.25%
Infrastructure	0.05%

Underperformers	% NAV
Financials	-0.75%
Services	-0.68%
Consumer staples	-0.44%

Number of Positions

Stocks	25

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

Tenor	
1 Day	43.5%
1 Week	78.4%
1 Month	96.9%

Market Capitalization

>US$10 bn	26.4%
>US$ 1 bn and <US$10 bn	47.8%
<US$1 bn	12.1%
Total Equity Exposure	**86.3%**

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$ 442,278,471

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

Annualized Return	9.20%
Annualized Ibovespa USD Return	-2.88%
Annualized Standard Deviation	31.80%
Ibovespa USD Annualized Standard Deviation	47.7%
# of Positive Months	70
# of Negative Months	51
Best Monthly Return	29.69%
Worst Monthly Return	-27.40%
ISIN:	KYG238261112

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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.

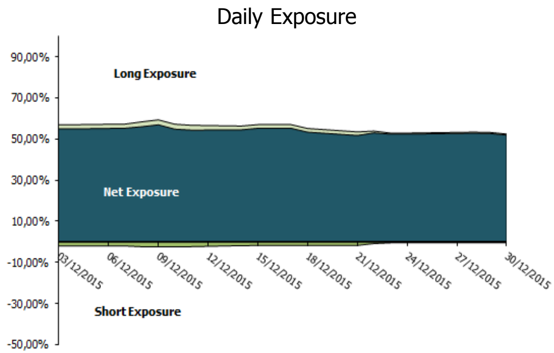
Constellation Fund SPC Class B - Long Short

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%	3.02%	0.57%	-1.89%	-15.66%	137.02%



Total Portfolio P/L (Gross of Performance Fee)

	Oct2015	Nov2015	Dec2015	2015
Longs	1.28%	1.09%	(0.75)%	(1.24)%
Shorts	(0.07)%	0.10%	0.04%	0.92%
FX/FX Options/Fixed Income	2.00%	(0.05)%	(0.47)%	(13.29)%
Equity /Index Options	(0.01)%	(0.39)%	(0.53)%	0.01%
Others Expenses	(0.19)%	(0.18)%	(0.18)%	(2.26)%
Total	**3.02%**	**0.57%**	**(1.89)%**	**(15.66)%**

Sector Exposure (Delta Adjusted)

Sector	Long	Short	Gross	Net
Financials	10.7%	0.0%	10.7%	10.7%
Consumer staples	8.4%	0.0%	8.4%	8.4%
Services	5.6%	0.0%	5.6%	5.6%
Utilities	5.1%	0.0%	5.1%	5.1%
Education	3.3%	0.0%	3.3%	3.3%
Infrastructure	3.2%	0.0%	3.2%	3.2%
Homebuilders	2.4%	0.0%	2.4%	2.4%
Industrials	2.2%	0.0%	2.2%	2.2%
Consumer discretionary	1.2%	0.0%	1.2%	1.2%
Pulp & paper	0.5%	-0.5%	1.1%	0.0%
ETFs/IBOV/ Options	9.9%	0.0%	9.9%	9.9%
Total	**52.4%**	**-0.5%**	**53.0%**	**51.9%**
Exposure to the BRL				**41.47%**

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

Tenor	Long	Short
1 Day	95.9%	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$50,000
Subscriptions:	Last Business Day of the month.
Redemptions:	Available series: monthly with 3 months prior notice.
Payments:	3 business days after the redemption day.
Advisory Fee:	1.5% per annum.
Performance Fee:	15% of the profit paid annually or upon redemption.
Net Asset Value	Daily net of advisory fee.
AUM of the Strategy:	US$ 64,534,529

Number of Positions

Long	27
Stocks	1

Value per Share (net of all fees)

As of December 30th, 2015	167.6186

Market Capitalization

	Long	Short
>US$10 bn	22.4%	0.0%
>US$ 1 bn and <US$10 bn	23.0%	0.0%
<US$1 bn	7.0%	0.5%
Total Equity Exposure	**52.4%**	**0.5%**

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

Annualized Return	5.63%
Annualized Standard Deviation	11.40%
# of Positive Months	74
# of Negative Months	59
Best Monthly Return	11.14%
Worst Monthly Return	-8.51%
ISIN:	KYG238261039

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