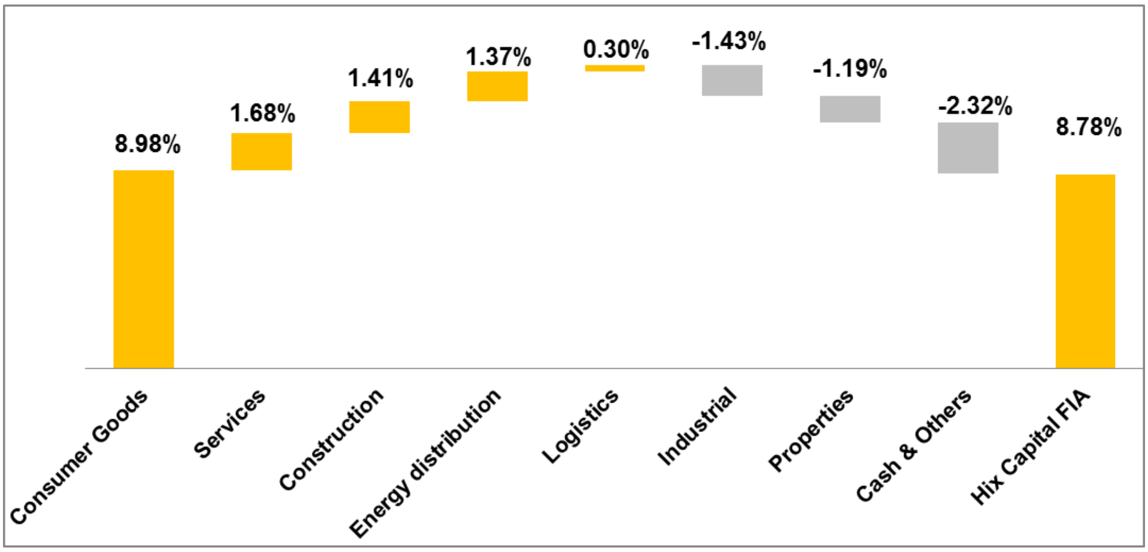
"Time is the friend of the wonderful business, the enemy of the mediocre."
(Warren Buffett)

Dear Investors,

In 2013, Hix Capital FIA gained 8.78%, while the Bovespa Index depreciated by 15.50%. Since May 2005, the portfolio managed by HIX Capital FIA managers appreciated by 595% compared to 101% of the Bovespa Index. During the year, the main positive contributions to individual results were Dufry, Portobello, Contax and Equatorial while the negatives were Cosan and Gerdau.

Performance Attribution – HIX Capital FIA



Source: Hix Capital

Our fund aims to maximize the return on invested capital, while minimizing risk of permanent loss of capital. We do this by managing a portfolio which is focused on quality businesses, easy to understand, excellent management teams and which trade at attractive prices. To make sure that all these pieces are in place, we invest a lot of time getting to thoroughly know the background of each company.

2013 Highlights

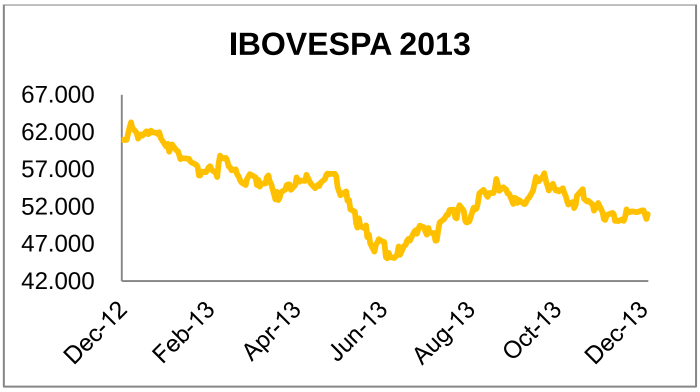
Despite the sluggish economic growth of the Brazilian economy, the year was very good for most of the companies which make up our portfolio. The aggregate net revenue of our portfolio grew 22% vs. 2012. In terms of EBITDA and Net Income growth was even higher, reaching 24% and 27%, respectively. In terms of valuation, the weighted average multiple of our portfolio is of 6.1x EBITDA and 13.2x earnings for 2014.

Portfolio Operational Performance	2013 x 2012
Net Revenues	22%
EBITDA	24%
Net Profit	27%

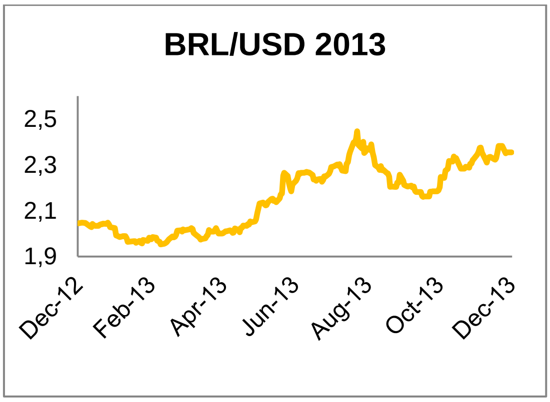
Multiples	2014
P/E	13.2x
EV/EBITDA	6.1x

Source: Hix Capital

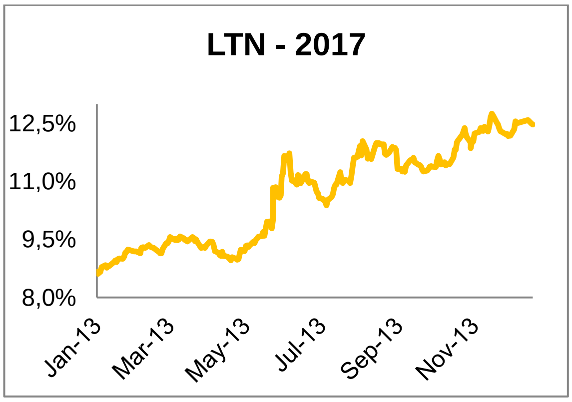
During 2013, the stock market, as well as interest and exchange rates, went through significant adjustments. After starting the year at 60.952 points, the Bovespa Index underwent a significant correction and ended 2013 at 51.507 points. This devaluation occurred by a combination of multiple compression and downwards earnings revision. On the other hand, the US Dollar gained 14.9% against the Brazilian Real, after it became clear that the lack of competitiveness of the Brazilian industry and lower FDI would reduce the flow of capital into Brazil. Finally, expectations of long term interest rates rose significantly after the Central Bank began a monetary tightening cycle in order to contain inflation, which remained at a high level throughout the year.



Source: BM&F Bovespa & Hix Capital



Source: BM&F Bovespa & Hix Capital



Source: Tesouro Direto & Hix Capital

2014 Outlook:

2014 began with a combination of low expectations for GDP growth, currency devaluation, high interest rates and a continuously high inflation rate. Despite this more challenging macro backdrop, we remain confident about the quality of our portfolio companies and their prospects for value creation.

In accordance with our investment view which is to buy stakes in companies that create value for shareholders at any time of the economic cycle, we seek to invest defensively in times like this. Following this rationale, we seek to invest in companies that have the following dynamic:

- Less dependent on domestic demand to increase their profits;
- Have the ability to pass-through prices in a scenario of higher inflation;
- Positively affected by a more depreciated BRL;

Thus, sectors such as Agribusiness, Travel Retail, Utilities and Pulp & Paper gained share in our portfolio.

The importance of qualitative analysis:

A frequent discussion among investors is which strategy to pursue in order to achieve results better than the broader market in the long-term. At first glance, wouldn´t the best alternative be as simple as to buy "cheap" companies? Thus, we could enjoy the gain on the convergence between the intrinsic and market value.

The analysis is very simple: if a company generates per year approximately R$100 million of free cash flow to its shareholders and we use a discount rate of 10% per annum, we derive an intrinsic value of R$1billion. If we purchase shares in this company at 70% of this value we would have an instantaneous potential gain of 43% or a margin of safety of 30% (which would protect us if we were wrong in some premise).

Our perception is that in reality, markets often take long times to adjust and an investor which buys a cheap company today, but which does not create value for its shareholders continuously over time - reducing its intrinsic value annually - may end up having a low return on the investment.

Let´s go back to the starting point and ask ourselves what we should pursue in order to generate sustainable and long-term returns. We, at Hix Capital, believe that the most appropriate strategy is to buy - provided the appropriate prices - shares of companies that are able to continuously create value for its shareholders.

As an illustration we propose a theoretical analysis of the following investments:

Company A operates in an industry that grows, has a good management team – properly aligned in order to create long-term value for the company. Its products are the best in its category, leading to sequential market share gains. The expectation for the coming years is that the company will be able to increase profits by 11% per year, increasing its intrinsic value by the same magnitude. It is therefore not surprising that the company´s shares trade at 95% of its fair value.

Company A (Theoretical #)	**Aquisition Date**	**12m**	**24m**	**36m**	**48m**
Profit Growth (%)	-	11%	11%	11%	11%
Intrinsic Value (R$)	100	111	123	137	152
Market Value (R$)	95				
Acumulated Return (%)	5%	17%	30%	44%	60%
IRR (%)		17%	14%	13%	12%

Source: Hix Capital

On the other hand, Company B, is in an industry that has been slowly shrinking and its executives receive hefty salaries, despite the continued deterioration of results. Their products are sequentially lagging behind and lose shelf space to competition. If management isn´t able to radically shift the company´s direction, profits are likely to fall 5% per annum, eroding the intrinsic value by the same amount. Its shares trade at a deep discount from its theoretical value and offer a 43% upside potential.

Empresa B (Theoretical #)	**Aquisition Date**	**12m**	**24m**	**36m**	**48m**
Profit Growth (%)		-5%	-5%	-5%	-5%
Intrinsic Value (R$)	100	95	90	86	81
Market Value (R$)	70				
Acumulated Return (%)	43%	36%	29%	22%	16%
IRR (%)		36%	14%	7%	4%

Source: Hix Capital

The comparative results between the two investments are very enlightening. If the investor can buy Company B and sell it after 12 months at its fair he will enjoy an aggregate return of 36% and an IRR of 36%, largely surpassing the 17% achievable in the same period in Company A. However, due to the gradual degradation in the value of Company B and the creation of value in Company B, after only 24 months, the internal rates of return are the same at 14%. After 48 months, the difference between the two is brutal, leading to an annual return of 12% and an aggregate return of 60% for shares of Company A and only 4% per year with an aggregate of 16% for shares of Company B .

Our conclusion is simple: there is no reason to buy shares of a company with little quality just because they are cheap. In this case, the investor would be betting on market timing, a very hard task. Thus, we like to buy companies that have sustainable competitive advantages and potential to increase intrinsic value consistently. Quoting Charlie Munger: *"Over the long term, it's hard for a stock to earn a much better return than the business which underlies it earns. If the business earns six percent on capital over forty years and you hold it for that forty years, you're not going to make much different than a six percent return - even if you originally buy it at a huge discount. Conversely, if a business earns eighteen percent on capital over twenty or thirty years, even if you pay an expensive looking price, you'll end up with one hell of a result."*

HIX Capital

At HIX Capital we seek to identify through plenty of analysis, fieldwork and conversations with experts and key people, if the trend of a company´s competitive advantage is increasing with time and consequently creating value for shareholders. By spending time exploring stores and/or factories, getting to know the controlling shareholders, management teams, customers and suppliers, we can better understand what lies ahead for the company. This knowledge helps us understand more adequately the opportunity for growth or the risk of deterioration in results. The process involves thinking like entrepreneurs and asking questions such as:

- What are the opportunities for improving my company´s results? Are there cost opportunities? Room to reduce my cash conversion cycle?
- Is the management team good and appropriately motivated?
- Are current management methodologies the best ones to capture opportunities?
- Will the industry grow in the foreseeable future? What is the risk of a significant disruption change the demand for my products?
- How will i differentiate myself in order to gain more market share?
- What are the main competitive advantages of my business and how do i make them stronger?
- In what markets am I able to charge adequate prices for my products in order to generate reasonable returns on my investments?

This approach is what gives us confidence to invest in companies. We believe that the ability to deeply understand the operational margin of safety in companies and avoid investments where it is too low, is what will bring us a significantly higher returns than the broader market in the long run.

Portfolio update:

Despite being very comfortable with all of our investment thesis and prospects of long-term value generation within our portfolio, we believe we are in an uncertain political and economic environment in Brazil, which may reflect directly in capital markets. Generally, when there is widespread pessimism it is common to find great assets at attractive prices. In light of this, we ended 2013 with 17% of our total AUM in cash equivalents and are ready to take advantage of opportunities whenever they appear.

Next, we would like to make an update of one of our investment thesis, Equatorial Energia S / A.

Equatorial:

Equatorial Energia (former Brisk Participações S/A) was established in 1999 with the aim of participating in the privatization auction of the electricity distribution company of the state of Maranhão, CEMAR. After several years of poor financial results, problematic financial situation and poor service quality, the company, which was already in the process of intervention by the regulatory agency, was sold with approval of ANEEL (Brazilian electrical regulatory agency) to GP Investments, which initiated a turnaround process. In 2005, GP Investments sold 49% of the company to PCP Latin America Power Fund Ltd, which remains as the controlling shareholder until today.

As part of the financial restructuring process, a capital increase of approximately R$ 155.0 million was held at CEMAR, being R$55.0 million a contribution of Eletrobras in return for a 34.4% stake of the company and R$100.0 million from Equatorial, giving it a 65.0% stake in the company.

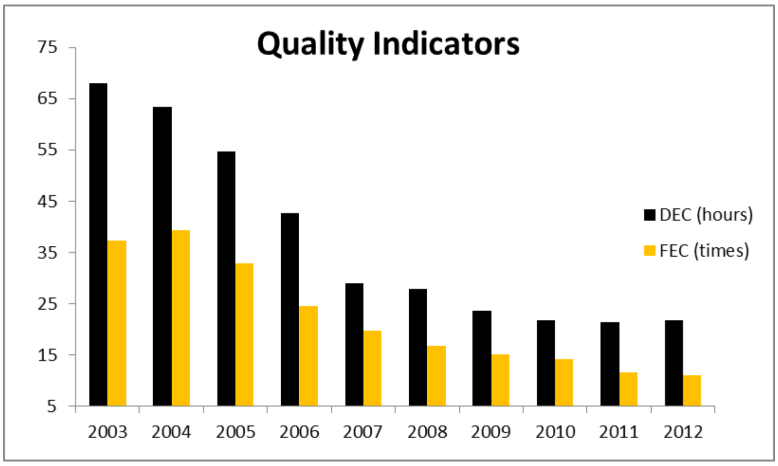
a) Acquisition and management change in CEMAR

From this moment onwards, the first phase of an intense transformation process of CEMAR began and was focused mainly on the following initiatives:

- Customer focus: it was essential to ensure a significant improvement in the level of service and customer service quality;
- Meritocratic culture and attracting new talents: this was one of the most important steps in transforming the company. Attracting competent people to key positions and establishing a culture where the most competent people are promoted, regardless of factors such as seniority;
- Focus on results: the implementation of this step was made with the help of specialized consultancy firms. Best practices were fully implemented;
- Operational restructuring: the macro-processes were redesigned with the reduction of hierarchical levels, removal of 'gray' areas of responsibilities and clearly designed report areas;
- Financial discipline: beyond the fundamental restructuring of debt, the company started to adopt a budget matrix structure and prioritize all projects by cost and return on invested capital;

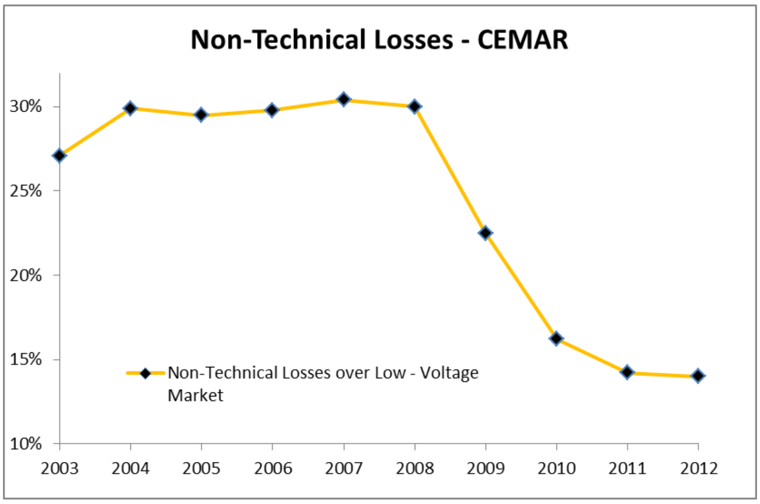
b) Operational turnaround at CEMAR

The second phase came soon after, following the fantastic work done in order to reduce non-technical energy losses. The company brought a very experienced team (all former employees of other electricity distributors) from a technical point of view, which aligned with the culture and processes of CEMAR was able to materially improve results. Below are some figures that we believe demonstrate part of the success in transforming CEMAR throughout 2004 and 2012.



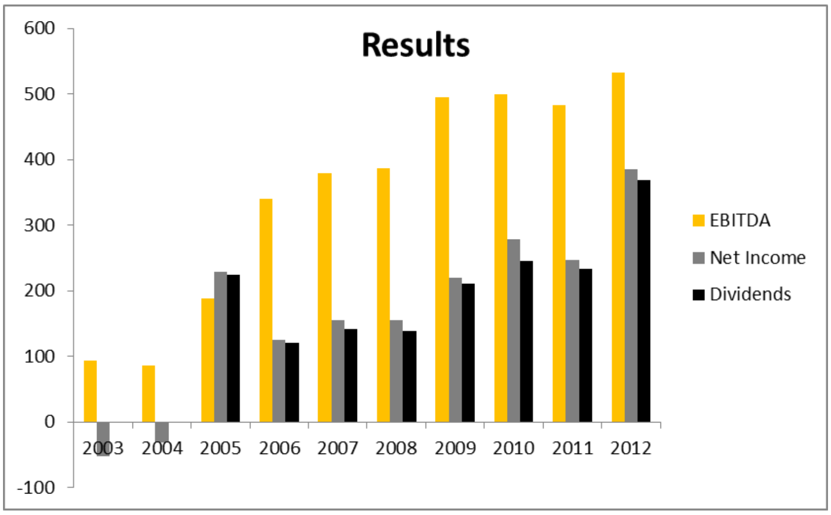
Source: Hix Capital

There was a significant reduction in FEC (Frequency Equivalent of Interruption per Consuming Unit) and DEC (Duration Equivalent of Interruption per Consuming Unit) indicators.



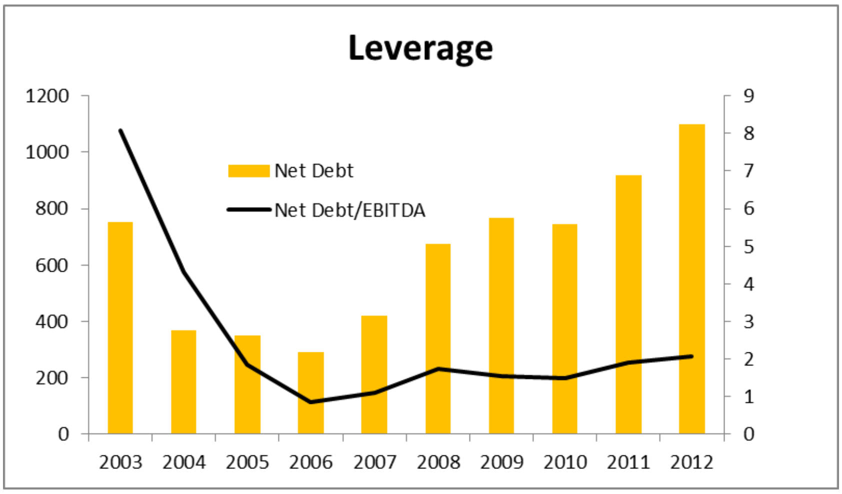
Source: Hix Capital

Manageable losses were reduced from 30% to 15%, turning CEMAR into a reference operator in high complexity areas.



Source: Hix Capital

CEMAR posted a 21.5% EBITDA growth per year and its earnings soared from - R$53 million to + R$385 million from 2004 to 2012.



Source: Hix Capital

In addition to restructuring the company´s debt, bringing the financial leverage to 2x from 8x (net debt/EBITDA), strong cash flow generation at CEMAR allowed it to distribute R$1.1 billion in dividends throughout these eight years.

The sum of dividends paid and value creation (measured through the company´s market value) at CEMAR generated R$4.1 billion in value for its shareholders. In other words, 30x the invested capital back in 2004.

With all these results, it is easy to imagine that the valuation of Equatorial is not a bargain. However, we believe there are several opportunities that make the investment still very appealing.

c) Further operational improvements at CEMAR and CELPA´s turnaround

Looking ahead, there are two new steps that are ongoing and that will generate great value for Equatorial shareholders: (i) a new improvement phase at CEMAR operations, which despite already being a very efficient operation presents several opportunities for further improvements, and (ii) the second, and more important, is the operational turnaround of the recently acquired CELPA.

CEMAR´s management believes there are still significant opportunities to improve operational performance. Energy losses will likely be significantly reduced in a new wave of more efficiency. At the same time, several opportunities to reduce costs are being implemented.

In November 2012 Equatorial concluded the acquisition of CELPA´s control for R$1.00 – the energy distribution company of the state of Pará which had filed for Chapter 11.

CELPA holds many similarities with CEMAR before its turnaround process began, namely: (i) high financial leverage, (ii) low operational profitability; and (iii) an unsustainable level of service. During the Chapter 11 process, R$1.9 billion of debt was renegotiated, with maturity being extended by 17 years at very attractive interest rates. Debt restructure was important in order to allow management to conduct the turnaround process in a more comfortable position.

Since its acquisition, Equatorial has moved several managers which conducted the turnaround at CEMAR to overlook and implement the necessary changes at CELPA, including some of CEMAR´s top management team.

The new team has been working steadily in the implementation of CEMAR´s culture in CELPA. Besides spreading the necessary culture to the whole of CELPA´s team, the management team has prepared some important tactical actions such as:

- Restructure of the call center in order to increase customer service quality;
- Two voluntary lay-off plans which have led to a reduction of 15% in the number of employees;
- Internal recruiting process in order to find great talents to look after key position;
- Agreement with SUDAM (Amazon region development agency) in order to ensure fiscal benefits which have reduced in 75% income tax payable;

Despite the short period since the acquisition it is already possible to see some improvements bearing fruit:

- FEC (frequency of energy losses) and DEC (duration of energy losses) indicators, despite still being at very high levels have already fallen by 30% and 18%, respectively, when compared to 2012 figures. Customer service indicators have also shown improvements;
- Quarterly EBITDA has increased from a R$2 million loss to a positive R$69 million despite still being well below the regulatory level;
- Energy losses have shown a subtle decline;

After this period, with the first improvement phase completed the company is poised to accelerate plans which will focus on operational improvements. While we understand that transformation projects are always challenging, the quality of the management team at CELPA and Equatorial makes us very confident on execution.

Furthermore, we hope that with the knowledge gained at the turnaround held at CEMAR and the fact that much of CELPA´s team is composed of senior executives with past experience at CEMAR, we believe results from the turnaround process will be surprising.

As such, we expect CELPA´s efficiency level to become quite as good as CEMAR in a shorter turnaround period than the one held at CEMAR. We believe we will have a very interesting return in this investment.

Hix Capital updates:

HIX Capital ended 2013 having been able to grow its AUM to R$45 million. Our investor base remains completely aligned with our long-term investment strategy and we have no doubt that such a solid investor base will be an important differential in the long run.

Additionally, HIX´s partners and investment team remain the largest investors in the fund and have committed a significant portion of their personal investments to the fund. Such alignment is one of our characteristics that will remain unchanged with time.

Throughout 2013 we have accomplished important milestones from an institutional point of view. Our main accomplishment was further investment in intellectual capital as we have enlarged our investment team. We have also invested in better processes, performance evaluation models and a thorough review of our operational process.

Finally, we have invited Gregory Goldfinger to join the team as a partner, in line with our meritocratic culture.

Thank you for your confidence,

Hix Capital Management team