"Buy when there is blood in the streets, even if the blood is your own"
(Baron Rothschild[1])

Dear Investors,

HIX Capital is an independent asset management firm focused on Brazilian equities. HIX Capital FIA Equities Fund goal is to maximize return on invested capital through a concentrated portfolio of high quality companies. In other words we look for business that: (i) are easy to understand (ii),with highly qualified management teams and (iii) compelling potential returns. We strive to know the companies as deeply as possible.

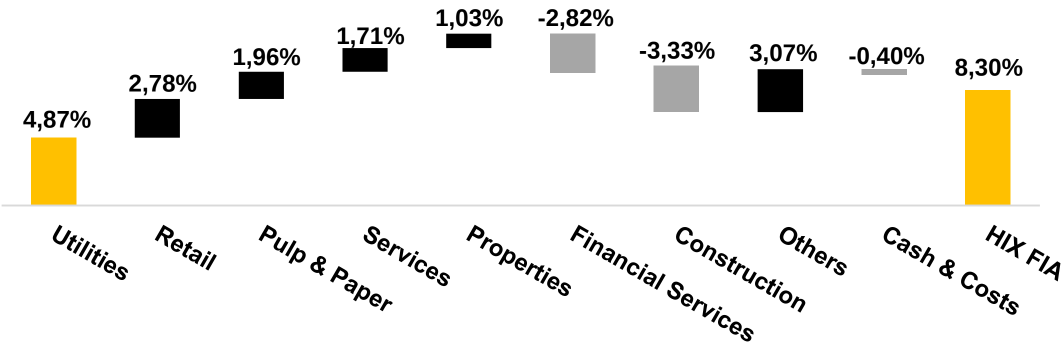
In 2015, HIX Capital FIA gained 8.28%, while Ibovespa index dropped 13.31%. Since May 2005, the portfolio managed by HIX Capital´s managers appreciated by 682% compared to +72% of the Ibovespa[2]. During the year, Equatorial Energia, Tempo Assist, Dufry and Brasil Agro where the main contributions to the fund, while Portobello, Itaú-Unibanco and Tecnisa generated the major losses.

Consolidated Results: HIX Capital FIA (%)

Year	HIX FIA	Ibovespa*	CDI**
2012	13.10%	6.80%	2.26%
2013	8.80%	-15.50%	5.66%
2014	3.90%	-2.80%	10.84%
2015	8.28%	-13.31%	13.25%
Since Inception	38.34%	-24.03%	38.72%

Source: HIX Capital
*São Paulo Stock Exchange Index
** Certificate of Interbank Deposit

Performance Attribution 2015: HIX Capital FIA



Source: HIX Capital

[1] Many historians argue that this phrase was never actually said, while others differ than it was actually said http://www.barrypopik.com/index.php/new_york_city/entry/buy_when_theres_blood_in_the_streets/). However, we found the anecdote quite adjusted to the current time.

[2] Includes performance of the Investment Club Keep Investing from May 2005 until August 2012. The annual performance up to December 2015 was 21.3% per year for the portfolio versus 5.1% per year of Ibovespa.

PORTFOLIO UPDATE:

During the semester, we continued to work relentlessly in search of new investment ideas. Thanks to this effort and a more favorable environment opportunity wise, we made a few adjustments in our portfolio. We increased investments in Itaú-Unibanco, Klabin and BB Seguridade and added Kraft and PAR Corretora to the portfolio. On the other hand, we ended our investment in Portobello and Tempo Assist (joining the Public Tender Offer made by Carlyle[3]) and reduced our exposure in Brasil Agro after a strong rally.

Our portfolio remains invested in stable business with low correlation with Brazil´s short-term macro environment. Approximately 70% of our investments have growth resilient revenue streams and we do not expect relevant downside risks in the coming years:

Company	% Portfolio	Volume Dynamic	Price Dynamic
Dufry e Kraft	18%	diversified volumes in the global market	Prices and costs in USD/EUR
Equatorial	16%	non-discretionary volumes	fixed contractually by inflation
Klabin	9%	excess demand exported, reduces pressure on local market	Prices are in USD and costs R$
Brasil Agro	5%	production aimed at export (agricultural commodities)	Prices in USD
Senior Solution	5%	contractual demand with very high *switching cost*	Fixed contractually by inflation
Par Corretora	5%	stacking feature in most of products	inflation-adjusted prices
Qualicorp	4%	service with high demand resilience (health plans)	Prices adjusted by medical inflation
Tempo Assist	4%	contractual demand with reasonable *switching cost*	Prices corrected for inflation services
BB Seguridade	4%	stacking feature in most of products	Inflation-adjusted prices
Total	**68%**		

Below we will briefly assess our major successes and failures in 2015:

Major positives:

- **Equatorial:** both operations from CELPA and CEMAR continue to post substantial improvements in their results. Adjusted income increased 26%, in line with the 27% gain posted by the company´s shares during the same period;
- **Tempo Assist**: after a period of three years investing in the company and having closely followed the successful operational and strategic turnaround, we divested entirely of our position following the takeover bid made by Carlyle. During this investment cycle we delivered an IRR of 41% per year;
- **Brasil Agro**: We reduced our exposure following a relevant farm sale in 2015 (R$270 million, approximately 50% of the company's market value at the time) which led to a strong appreciation of the shares. During this period we also received dividends of 12% generating a total return of 37% in the year;
- **Klabin:** the continued devaluation of the real, associated with a strong operational performance and an on time and ion budget development of the company´s new pulp plant, Project Puma, led the share to appreciate 63% in 2015;

[3] Brazilian office of one of the largest fund managers of *Private Equity* in the world
[4] We still have a position of 4% in the fund that must be sold tender offer for delisting of shares, to take place in March 2016

A misreading of the relationship between corporate earnings and expectations - or the adjustment of them - by the market, generated our main mistakes:

- **Portobello**: a strong 51% devaluation of the stock during the year caused the major impact on the fund. Paradoxically, in the past 12 months results have been very positive, and the company increased its revenue by 16% and its operating income by 25%. However, the negative impact on shares was due to a combination of (i) aversion to illiquid shares[5]; (ii) fear of a potential sharp decline in real estate activity in the future; and (iii) forced sale of relevant stakes by other equity funds which had relevant redemptions. Despite the decline in shares having no correlation to the company´s current results, we decided to sell our remaining position in order to create room to invest in other companies we believe have better risk/return balances;
- **Itaú-Unibanco:** another example of a company whose shares have poorly performed during the year (19%), despite the earnings growth of +17.2%. In this investment we decided to increase our exposure at the end of the year. We will give further detail in the following section of this letter;
- **Tecnisa:** in the beginning of the year we believed that Tecnisa's shares had already priced in the massive deterioration of the Brazilian real estate sector. Sales figures, and the decrease of property prices over the year were in line with our expectations. However, despite the company's equity having posted a 31% growth and its debt fallen by 52%, the share price tanked 28%. Part of the impact was mitigated due to a 5% dividend payout and a 7% income on the back of leasing our shares to short-sellers. We underestimated the impact that market expectations might have on the company, and we ended up investing too soon. Nevertheless, we still see significant value.

Our portfolio holds a double-digit earnings growth perspective in 2016, with a P/E 2016 ratio of 10.3x (the lowest in several years). We remain very excited about the prospects of our companies, and as such our cash position is low at the moment (~8% adjusted for the expected receivables of Tempo as soon as Carlyle´s tender offer is concluded).

Earnings Performance (Simulation HIX FIA Holding)

	2013A	2014A	2015 E	2016 E
Net Revenue	73.9	85.0	100.0	113.1
Growth%		14.9%	17.7%	13.1%
Net margin	11.3	13.5	15.4	17.4
Growth %		19.8%	14.0%	13.1%
P/E Fwd.	**13.5X**	**11.7X**	**13.4X**	**10.3X**

Source: HIX Capital

[5] Being a small cap, Portobello has low liquidity.

SCENARIO UPDATE:

Since early 2013, we have taken a cautious stance as we have been expecting a pronounced slowdown in Brazil´s economic activity. However, even in our most pessimistic scenarios, we had not envisaged a slowdown as bad as the reality facing the country at present with an expected GDP contraction of more than 7% over the course of two years, double digit inflation and real interest rates exceeding 7% per year. In retrospect, it is easy to see that public policies held by the current government led to a major deterioration of public accounts, lack of confidence of entrepreneurs and investors as well as strong instability in the political environment. However, we have prepared ourselves for this scenario by avoiding large losses which has left us in a better position to seize future opportunities.

The current instability has caused a relevant flight of foreign investors from the Brazilian stock market and the switch of Brazilians to Government Treasuries, culminating in a relevant *de-rating*[7] of prices. We believe this process is hard to reverse in the short-term and the economy will most likely move sideways for some time. Nevertheless, there are several interesting investment opportunities. The crisis ended up penalizing both good and bad companies alike and as a consequence several good companies with good management teams, dominant market positions and with a strong cash generation are at very attractive valuation levels.

Brazil has a large consumer market, a stable legal system and is a very important producer of agricultural products and commodities where well-managed companies with winning business models will be the best way to multiply wealth over time. It is common sense that this return can be even better if investors increase their exposure in stressful market times and reduce them in moments of euphoria. However, many investors end up doing exactly the opposite. We are in the midst of the biggest crisis in the history of Brazil, asset prices are in the lowest levels in a long time, and investors are also underinvested in shares.

This has led us to research about the average investor ability to assess Market Timing[8] and make adjustments and/or rebalance their portfolios at the right times. Most investors and investment advisers firmly believe that they know the right time to buy stocks. Our studies have shown us that this is not an absolute truth.

ABOUT MARKET TIMING*:*

Empirical evidence shows that market timing generates mediocre returns. Dr John R. Graham and Campbell R. Harvey, from the universities of Utah and Duke[9], carried out a very interesting analysis. They compiled from results of 237 regular investment recommendations in specialized magazines from 1980 and 1992, which produced around 15,000 recommendations of portfolios composed of cash and shares over time. The results showed that 75% of the recommendations brought lower returns than a portfolio with a fixed percentage of shares and cash during the same time frame.

[7] Fall in multiple by worsening risk perception of a company or sector.
[8] Temporal reading of the market to know in which direction it will move in the short term.
[9] Market Timing Ability and Volatility Implied in Investment Newsletters' Asset Allocation Recommendations (John R. Grahama, Campbell R. Harvey_b)

The vast number of publications and its popularity at the time led researchers to believe that such a phenomenon can be extrapolated to investment professional's recommendations regarding Market Timing in general.

Another interesting study highlights the difficulty of Market Timing by Gregg S Fisher[10], who compiled the result of investing in the US stock market over a 20-year period[11]. Often, investors seek the ideal time in investing or divesting. In the process of looking for the best day to purchase and sell it is common to end up losing one or two days with exceptionally positive (or negative) performances. However, this should not be of concern, right? In fact, by losing the best performing days of each year for twenty years, the annual return an investor would have in the S&P500[12] would be 4.31% compared to 8.34% of the index itself. That is, working on market timing resulted in a return of almost half of the market average. Of course, if the opposite happened, and the investor was able to avoid the worst day of fall per year, the impact would be positive and the return would rise to 12.2%. This means that by seeking to optimize the return by choosing the best and/or worst days to invest, the investor probably runs the risk[13] of ending up with a return worse than the passive strategy of simply buying a balanced portfolio of stocks and cash.

Monthly data: 01/01/1992 - 31/03/2012
Source: Gerstein Fisher Research and Standard & Poor's Index Services Group

In our opinion, investors should have an objective portfolio of pre-defined allocations (fixed income, real estate, stocks, etc.) according to their ambition, risk tolerance and the current outlook. As specific market rises, there is an increased exposure in the portfolio, and so the investor should make adjustments, reducing such exposure. When the contrary happens, adjustments should be made in the opposite direction (increasing exposure).

10 http://gersteinfisher.com/the-trouble-with-market-timing
11 Jan 1992 to March 2012.
12 Index that measures the performance of the 500 largest shares of the US stock market.
13 According to the conclusion of the study of Graham e Harvey.

Market timing only generates higher returns in exceptional cases, where the investor has an extraordinary ability to read the market. Taking into consideration the situation of the stock market in Brazil, which has fallen substantially in recent years, it is reasonable to say that investors should again increase exposures in equities back to long-term levels[14].

INVESTMENT THESIS UPDATE:

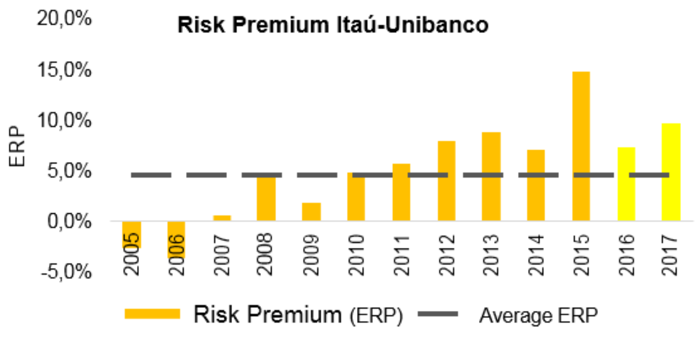
Below we detail two investment thesis: (i) Itaú Unibanco and (ii) PAR Corretora. Itaú-Unibanco has been in our portfolio for a long time but has gained prominence in size in recent months. On the other hand, PAR Corretora is a new investment.

ITAÚ-UNIBANCO:

Itaú-Unibanco is a company which, in our view, reflects the bad mood of investors with Brazil and, consequently, the deterioration of market expectations, despite its good operating performance. This has created an opportunity in our investment point of view, which we will detail below.

Banks are typically very correlated with economic activity and Itaú-Unibanco is no different. It is the largest private bank in Brazil in terms of assets, equity and market value. Its shares together form the largest single component of the Ibovespa index. Market consensus is that Itaú-Unibanco is one of the best-operated[15] banks in Brazil and has the highest average return on equity of the industry (ROE). In recent years, the management team has been adjusting operations aiming to improve ROE through (i) sale of non-strategic subsidiaries, (ii) focus on the increase of insurance and services, (iii) strong lid on expenses and (iv) reducing exposure to riskier credits.

Despite an important operational improvement in recent years, the implicit equity premium[16] for holding the shares rose significantly. As shown below, this premium today is well above the average of recent years.



Source: HIX Capital and Itaú-Unibanco

[14] Boldest investors could assess whether it might be time to have an equity exposure above average.
[15] We could spend a long time discussing whether Bradesco would have a better management or strategy, but we believe that for our analysis is sufficient to say that both are extremely well managed.
[16] We calculate this premium as the *Earnings Yield* (or income for the last twelve months divided by the market value of the company) subtracted from the actual average effective interest of the year

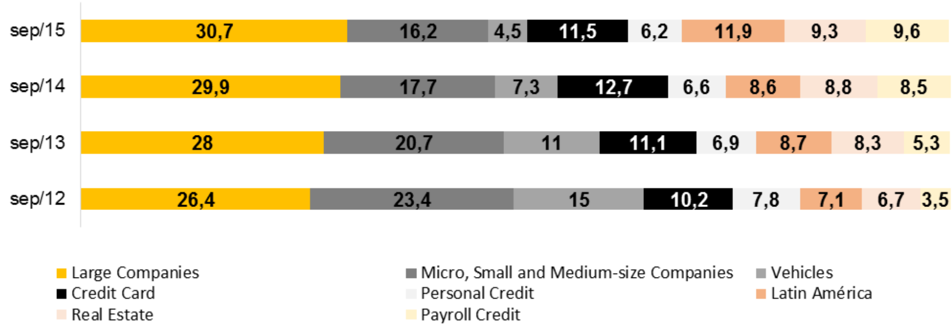
The increased risk premium is due to belief that the expected decline in results in 2016 will be perpetuated, putting into doubt Itaú-Unibanco's ability to recover its high profitability in the coming years. Our vision is similar to market consensus regarding the short-term (2016), as we believe insurance and services will remain resilient. On the other hand, we expect credit results to shrink 51%. However, our view differs materially from market consensus from 2017 onwards. We believe that the bank will suffer specific profitability reductions in the short-term, but will be able to continue to generate value in the long term. This is characterized by the following reasons:

- **Oligopoly:** the banking industry in Brazil is highly concentrated and therefore the big banks have a huge pricing-power over their customers;
- **Results not coming from credit:** 55% of the result of Itaú-Unibanco comes operations non-exposed to credit environment. Most of these services had an increase above inflation. Next, we will give more details on the key lines of services:
    - **Security** (13% of earnings): the Itaú-Unibanco security operations include insurance activities (people, property and lender), pension plan and capitalization. This business unit has an extraordinary ROE (over 50% pa) and grew at a 7.2% rate in 2015.
    - **Acquiring services** (12% of earnings): under the brand Rede, the company is the second largest network of acquiring business of credit and debit cards in Brazil, with 1.8 million registered establishments. This line of service increased by 4.2% the number of customers compared to the previous year.
    - **Management services, cash flow, and funding** (11% of earnings): essential services for companies and people cash management.
    - **Other services** (18% of earnings)

- **Internationalization: O**ver the past few years the bank has successfully carried out strategy of internationalization of its operations. They recently merged their operations in Chile with Corpbanca, becoming one of the largest banks in Chile and Colombia. These countries now have very interesting growth opportunities combined with a high return on capital, which will create relevant value for shareholders.
  The international operation now accounts for 5%[17] of results, with a tendency to continue to grow above average.

[17] This number should increase significantly after the closing of the merger of Itaú Chile with Corpbanca.

- **Mix of the loan portfolio:** last but not least, in recent years Itaú-Unibanco has worked to reduce the relevance of higher risk loans in their portfolio. Thus, the crediting mix with solid collateral such as real estate and payroll (INSS and payroll) have grown while vehicles has been shrinking. Such move should translate into a more resilient portfolio in times of higher defaults.



Source: Itaú-Unibanco

Valuation:

If we are correct and Itaú Unibanco earnings growth resumes from 2017 onwards, we believe the investment opportunity is exceptional. A company with a ROE of around 22% p.a., growing at actual rates of 2% p.a. and a stable political environment, should trade at a multiple of more than 10x earnings. In our analysis we adopt an 8x P/E as an exit multiple (below what we believe is fair). Thus, estimating the dividend in the coming years and the share sale @8x earnings in 2018 the expected rate of return on our investment is 28% p.a.

	2015	2016	2017	2018
Price ITUB3	-22,4			39,2
Dividends		1,7	2,2	2,4
Total	**-22,4**	**1,7**	**2,2**	**41,6**
IRR	**=====>**	**28,2%**		
Earnings per share	**4,0**	**3,3**	**3,9**	**4,4**
Growth %		-17,5%	18,2%	12,8%
P/E	**5,7 x**	**6,7 x**	**5,7 x**	**8,0 x**
ROE	**24,0%**	**18,0%**	**19,0%**	**20,0%**

Source: HIX Capital

With such an attractive entry point and the opportunity to buy a company with such a strong franchise coupled with record interest rates and a high implied risk premium, seems like a great investment.

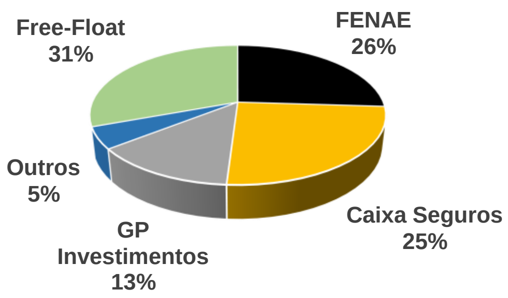
PAR CORRETORA

Overview

PAR Corretora was founded in 1973 and is the exclusive insurance broker at Caixa Seguros, the subsidiary of Caixa Econômica Federal (CEF). The company sells insurance products, pension plans, capitalization and pre-purchase financing pools on the counter of CEF.

CEF is now Brazil's largest bank by number of clients (82 million), the second largest in terms of loan portfolio. It has 3400 branches, 13,000 points of sale and lottery retailers and 15,000 corresponding banking outlets. Despite the excellent distribution power of the bank, it is still far from having exploited its full potential in insurance, just being the fifth largest dealer in its industry.

PAR became known to us (and many other players) in 2012, when GP Investimentos acquired 17.6% of its capital. At this time, it started an intensive process of improving management processes and performance in order to increase the penetration of insurance products amongst the customer base of Caixa Econômica Federal (CEF) and to seek efficiency from the point of view of costs and expenses. The first results of the work performed by the company's current management team were quickly harvested, evidenced by the strong growth in profit of PAR, going from BRL 24 million in 2012 to BRL 130 million in 2015[18]. After this period of strong growth, the shareholders of PAR decided to open its capital (IPO) in 2014, so that the current ownership structure was set as represented below:



Source: PAR Corretora

[18] According to our expectation

Business model

PAR Corretora has a leading role in the distribution of insurance in Caixa Seguro's portfolio, acting as an integrated operating platform adding value in (i) strategy, (ii) marketing and (iii) sales management (setting and monitoring targets). From a strategic point of view, PAR deeply analyses the competitive insurance scenario, defines growth strategies and which products and channels to focus on. The company is also in charge of the entire business plan, processes and sales planning, setting targets by agency and channel. It has 1100 sellers at CEF (The bank of Caixa Econômica Federal), executing the sales force, its tracking and monitoring, along with the due diligence process to prevent losses and fraud. This is all supported by a well-built data architecture and integrated systems that gives consistency to the business growth.

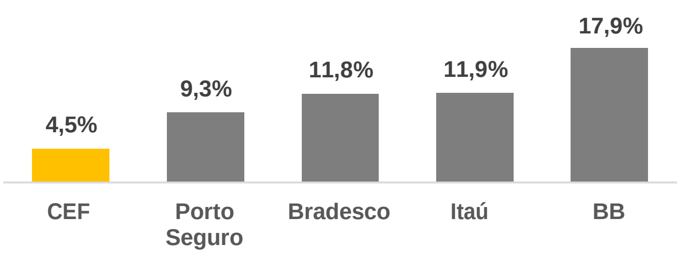
Investment thesis

Our case is based on four triggers:

1. **Low Penetration and Growth Potential:** PAR benefits from being quite interconnected within the ecosystem of CEF and Caixa Seguros, with a strong interdependence. However the market share of CEF in the insurance segment is still small and not relevant. CEF has 4.5% of total premiums, while BB Seguridade has 17.9%, Itaú 11.9%, Bradesco 11.8% and Porto Seguro 9.3%. Given that PAR does not rank at top amongst its peers and considering its potential as mentioned above, there is still a huge growth upside.

2.

Market-Share in the Insurance Market (Premiums)

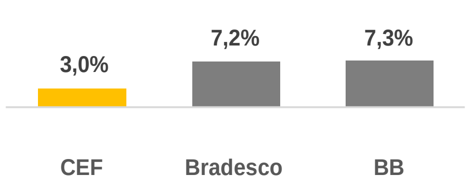


Source: SUSEP

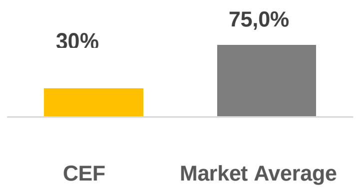
If we look at the difference in penetration by products for life insurance, CEF has 3.0% penetration of the base versus 7.3% of BB Seguridade and 7.2% of Bradesco.

Considering loan protection insurance, only 32% of the loan portfolio is insured versus 75% of the market average and still with a great potential to increase penetration in other types of credit and channels. CEF is the market leader in housing credit counting over 60% of *market-share.* This is of great importance once home insurance is mandatory when housing credit is offered and accredited to account holders. Despite the channel strength and a quite impressive gain in all aspects of insurance products, the growth potential is still very high.

Penetration of Life Insurance (%)

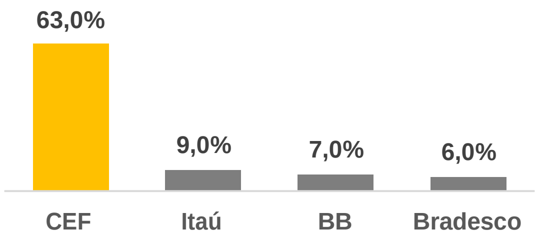


Lender Insurance Penetration (%)



Source: SUSEP, BACEN and PAR Corretora

Market-Share Home Insurance (%)



Source: SUSEP, BACEN and PAR Corretora

3. **Predictability of results:** The most representative insurance products sold by PAR (housing and life - 60% of revenues) are linked to a loan portfolio whose duration tends to be long: It is about 18 years in housing and 3-4 years in life. Therefore, the annual growth has less relevance compared to receivable brokerage held by the company, meaning that periodic slowdowns have less impact on results. Thus, predictability of revenue and cash flow is huge, causing the macro scenario to have almost no effect in our investment case.

4. ***Asset Light:*** There is no need to retain capital or investments to support growth as PAR is a brokerage firm and not an insurance company. PAR distributes 100% of its profits to its shareholders.

5. **New Products and Channels:** Correspondent banking outlets generates 30% of all payroll loan origination. PAR started selling loan protection insurance via this channel in January 2016. Moreover, PAR will sell loan protection insurance in working capital transactions during the 2nd half of 2016. The commission on loan protection insurance should be the one with the most growth potential amongst the CEF revenue base, given the low penetration and opportunities mentioned. Finally, CEF also started to sell home insurance for the bands 2 and 3 of *"Minha Casa Minha Vida"*, as an additional source of revenue.

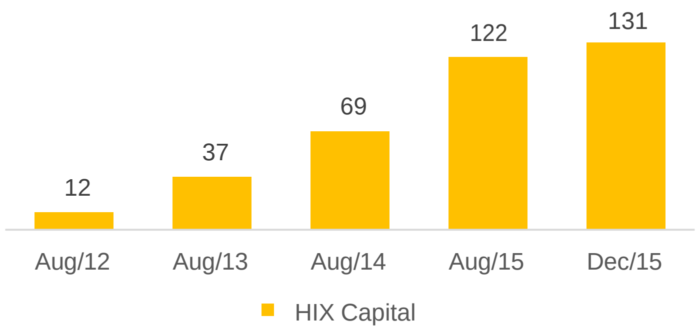
Valuation:

PAR is traded at 6,7x EV/EBITDA and 8.9% of Free Cash Flow Yield 2016 which are highly attractive multiples for a company with the potential to grow its profits significantly for several years. Due to its strong cash flow profile and low need for capital to continuously grow, we expect PAR to be a great dividend payer. In our base case, we expect a 25% IRR on a five-year horizon of investment return - which is very good - adjusted to their low risk.

UPDATE HIX CAPITAL:

HIX Capital succeeded to reach continuous and structured growth by the end of 2015, despite the challenging environment of the last semesters. We ended the year with approximately BRL 130MM under management invested in stocks through open vehicles and co-investment vehicles. Our main investors are still families and *family* offices, with whom we have direct relationships and who truly trust and understand our investment strategy and are aligned with our investment horizon. Our effort to approach *multi-family* offices, distributors and allocators started to show results in 2015. This year we also kick started the process of building relationships with Brazilian institutional investors (pension funds and insurance companies) and we hope to find investing partners here who can stay with us for many years. In 2016, we expect to launch an offshore fund with the same exact strategy as the local fund, allowing international investors to partner with us. We are quite advanced in the process and we hope to have a fund up and running by the end of the first semester.

HIX Capital AuM (BRL million)



We invested heavily to further improve the institutional structure of HIX, both in terms of personal and management systems in 2015. We also worked to improve our *screening* processes, risk analysis, *trading*, and portfolio assembly, among others.

We believe that when building and perpetuating a company, it is a key point to have:

i. good employees,
ii. proper alignment and
iii. to be working in a cohesive manner over a prolonged period.

Our team has been working together for some time and growing progressively through the processes and interactions, so our future should be even better. Among the changes of the team worth highlighting, we would like to announce that Bruno Mesquita was invited to join the *partnership* structure of HIX.

Bruno has been working with us as the *head* of the Operation's area since the beginning of 2015 and has done an excellent job. It was an easy decision to invite him to become a partner.

We remain excited about the future prospects of HIX and confident with the team's ability to keep growing and finding good investment opportunities for the partners and our investors.

We appreciate your trust,

HIX Capital Team.