"The winds and the waves are Always on the side of the ablest navigators."

(Edmund Gibbon)

Dear Investors,

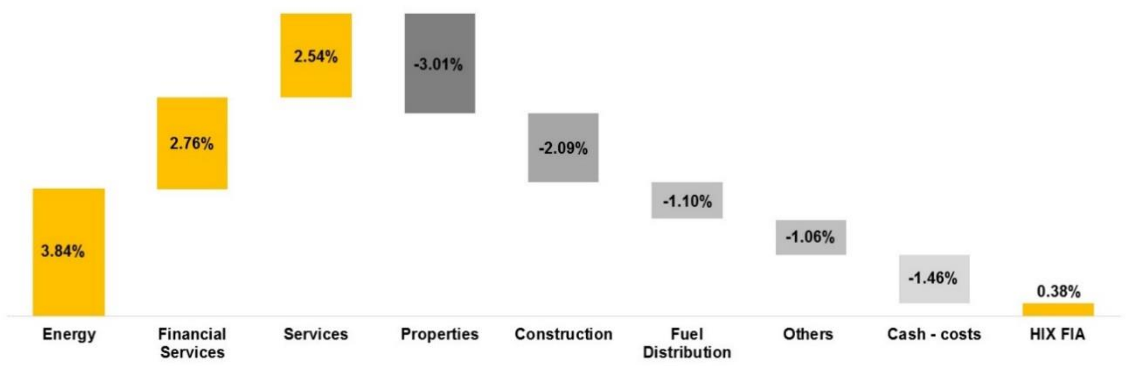
HIX Capital is an independent asset management firm focused on Brazilian equities. HIX Capital FIA's goal is to maximize return on invested capital through a portfolio concentrated in high quality companies. In other words: easy to understand businesses, highly qualified management teams and compelling potential returns.

Up to June 2014, HIX Capital FIA gained 0.57%, while the Ibovespa gained 3.22%. Since May 2005, the portfolio managed by HIX Capital FIA's managers gained 599%, while the Ibovespa was up +108%. YTD, main positive contributions were Equatorial Energia, Tempo Assist and BB Seguridade. On the other hand, negative contributions were Cosan and General Shopping.

Performance Summary - HIX Capital FIA

Year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Ibov.	IPCA+6%
2012	-	-	-	-	-	-	-	-	% 2.15	% 3.04	% 4.46	% 2.85	% 13.09	% 6.82	% 4.59
2013	(% 0.88)	% 4.97	% 0.61	% 1.79	(% 1.24)	(% 6.38)	% 0.50	% 0.04	% 2.80	% 4.56	% 3.52	(% 0.82)	% 8.78	(% 15.50)	% 12.24
2014	(% 7.25)	(% 3.09)	% 2.60	% 0.89	% 4.74	% 3.20	(% 0.95)	%0.76	-	-	-	-	%0.38	%18.99	%7.86

Performance Attribution - HIX Capital FIA



We continue with a bearish view regarding the Brazilian economy and we expect 2015 to be a year of adjustments. It is hard to predict when, how and the size of such adjustments. In such context, the underlying strategy related to the construction of our portfolio is based on companies which depend mainly on internal levers in order to deliver profit growth. In other words, we search for companies that rely on factors such as cost cutting, operational improvements, new projects and which have structural growth tendencies in order to deliver growth in the foreseeable future. Thus, we believe that our portfolio is pretty solid and has a low correlation to the broader market volatility. Additionally, we believe our portfolio companies have a high probability of delivering expected growth, even in the most challenging economic environments.

In the long-run, we believe that equities return should converge to the underlying profit growth. In 2013, our aggregated portfolio presented a strong revenue and profit growth which we expect to repeat itself for at least two years. In addition, the aggregate valuation of our portfolio remains very attractive (13.4x 2014 P/FCF and 11.5x 2015 P/FCF). Below are the details of our combined portfolio:

R$ MM	2012	2013	2014 E	2015 E
Net Revenues	**57,521**	**64,250**	**75,527**	**85.582**
Growth %		11.70%	17.55%	13.31%
Net Earnings	**6,912**	**8,302**	**10,434**	**12521**
Growth %		20.16%	25.61%	20.00%
P / FCF			**13.4 x**	**11.5 x**

Source: HIX Capital

People and Culture

In our previous letter we emphasized the importance of a robust qualitative analysis in order to find attractive investment opportunities. In this letter, we thought it would be interesting to explore more specifically a few characteristics which we, at HIX Capital, look for in our search for companies to invest in.

However, it is not our goal to present an ideal management model as there is no rule that determines a company's success. On the other hand, there are a few overlapping characteristics between exceptional businesses which we try to reflect in our investment framework.

Our analysis begins with the understanding of the company´s long-term goals, also known as Dream, or, as framed by Jim Collins, BHAG[1]. Carlos Britto – Anheuser-Busch Inbev CEO – sums up the concept when he describes Dream[2] as a long-term goal that:

- Is hard to achieve but is believed as possible by the team
- Demands hard work
- Motivates the team
- Has the capacity to align the whole team and makes every professional understand their meaning and role in the organization

We believe that companies that do not define long-term goals tend to get lost along their path, as a consequence of excess focus in short-term returns, jeopardizing future growth. However, after analyzing several companies, we realized that most of them usually have great long-term goals and yet many fail to get there by misreading the market or due to

[1] Term described in the book Build to Last: Big Hairy Audacious Goal
[2] In this case, ABI usually referred to that concept as "vision dream"

execution failures. In this letter, we do not intend to discuss the strategies established by companies, but some common characteristics which were applied in successful ventures.

In recent years, we have had the opportunity to implement some initiatives in companies where we hold stakes. We engage deeply in the operation and day to day of these businesses and as a consequence we have been able to gather some experience in the real economy. Additionally, we have closely monitored several other management experiences. This experience has allowed us to design the analysis framework used at HIX Capital.

We have separated our analysis in two main topics which are fundamental at great companies: People and Culture.

1. People

Warren Buffet has a famous quote that says "In business, I look for economic castles protected by unbreachable moats. What I love - of course - is a large castle with a very deep moat full of crocodiles." What is interesting, however, is that companies are embedded in such dynamic environments that it is virtually impossible to sustain solid competitive advantages in the long-run without a team which is able to develop it on a daily basis. Products can be copied, strategies can be replicated, and technology can be acquired. The only way to stay ahead is to ensure that every day the team is digging deeper into this gap through process improvements and innovations.

Although not common sense, we believe that the competitive advantages of most companies are closely linked to their professionals and corporate culture. Because of this, companies that have the ability not only to attract talents, but also encourage them to deliver their full potential and stay with the company for many years, are more likely to develop and maintain their competitive advantages over time. Jim Collins in his book Good to Great argues that exceptional companies seek first "who" and then define "where" they want to go. The point is not that the strategy is something minor, but a company with exceptional people are more likely to develop an exceptional strategy, execute it in a disciplined manner and make corrections whenever necessary.

We also believe that as importantly as promoting the right people is to remove underperformers. However, it is in the point that most companies tend to fail.

a. Managers with an owner mindset

Although hard to define, it is extremely important to have what we call an owner´s mindset. Usually, owners feel in their stomach the success and failures of their[3] companies, celebrate achievements and make whatever it takes to avoid the failures. Their ambition for greatness is based on the company and not on self-recognition. While owners live with their choices, managers can simply change jobs.

While public equity investors, it is difficult to see how far companies' management teams are truly aligned with strategy and how deeply rooted corporate culture is embedded. The best way to analyze this is by talking with executives from the highest to the lowest hierarchical level, competitors, customers and suppliers about the attitude of the managers and the company itself. Although it is a time consuming activity we believe it is of utmost importance. We invest all the time and resources necessary to understand these issues in-depth because we believe that shareholder value creation is very important in the long term.

b. Meritocracy

"No company can increase its revenues consistently faster than its ability to attract the required amount of right people to execute its growth." Although this seems obvious, this statement brings up an important issue for most companies: the best people like to work and develop their full potential in meritocratic environments in which they professionally grow accordingly to their own talent, their ability to "wear the company´s shirt", inspire their teams, achieve goals, etc. In light of this, such people search for a company which can evolve based on their own pace and performance.

Due to the broadness of the concept, it is hard to identify when a company is in fact exercising meritocracy. Nevertheless, we like to understand some factors such as:

- Methodology and frequency of people´s assessments;
- Communication efficiency in the corporate environment;
- Management model used by leaders;
- Clarity and dissemination of strategic planning and goals;
- Structure of financial incentives and alignment of managers with shareholders.

2. Culture

We all know what we have to do to lose weight: eat well and practice exercises. However, whenever people have to put such elements in practice on a daily basis, failure tends to be the most common result. Companies work in a similar manner and a well-structured culture helps to ensure the implementation of a well-defined strategy, ensuring the achievement of expected results. The main pillars of culture that we analyze are:

[3] Not the company they work for, THEIR company

a. Focus on results

Consumers do not buy organizations' effort; neither pay for management's good intentions. They are dispassionate and are always searching for products with the better value component.

Unlike what we used to hear as a child, in the corporate world it is important not only to compete but to win the competition. We love when we find companies with humility rooted in their culture, companies which are able to recognize that there will always be better competitors in one or more activities and thereby learn and find opportunities for improvements in their products, services or cost base. We like it even more when executives use this recognition to raise the bar within the company through internal and external benchmarks.

As in high jump, to achieve consistently superior results it is always necessary for companies to raise their bars. Thus, it is necessary to quantify and measure results of all relevant performance indicators, continuously raising targets whenever gaps in performance are identified. Professor Vicente Falconi, CEO and Founder of one of the most important Brazilian management consultancy firms, says that "where there are no goals there is no management"

In order to identify such characteristics, we commonly search for:

- How strategic objectives are converted into goals for each of the company´s teams;
- Understand how results are measured and with what frequency;
- Get to know how management adapts the strategy execution in case of a change in course.

A clear comprehension of this routine is fundamental to understand the kind of doctrine and level of control a company has, and thus, its capacity to implement a system in order to have continuously better processes and results.

b. Lean Cost Base

We never met a company that considers itself bloated in terms of costs and expenses. However, some companies understand that the effort to reduce expenses brings a huge competitive advantage. By spending less on unnecessary expenses, companies can prioritize financial resources to projects or areas that will actually lead to revenue growth and strengthen its competitive position, creating a virtuous circle.

The difficulty, however, is not to apply a first wave of cost reduction, but rather an ongoing program to ensure the maintenance of a lean cost base and seek an ever leaner base. It is very common for companies to make a deep cut on expenses but after one or two years, are back at the starting point with a bloated and inefficient structure. Therefore, it is essential that a permanent improvement methodology focused on keeping lean and highly productive structures to bring significant and sustainable results are put in practice. One of the most successful tools for this is the zero based budgeting[4] approach.

c. Compensation

Compensation itself is not sufficient as a motivational tool for executives, but the absence of adequate plans can be a demotivating factor, hindering the attraction and retention of people. Typically, policies with a lower percentage of fixed compensation offset by a significant amount of performance indicators linked to variable pay tend to have positive results vs. goals previously set. Long-term incentives such as stock purchase incentive programs tend to align executives with the company's future by linking a large portion of executive compensation to equity. On the other hand, compensation plans do not guarantee by itself a solid performance for value creation over time. There are several cases of companies which have so called "long-term alignment programs" but shareholder long-term value creation is questionable. We believe that more than compensation itself, a company´s culture and how deeply rooted it is in the company is what actually motivates and aligns executives and teams in order to develop a positive agenda for value creation.

Notwithstanding, we believe that fixed and variable compensation is important for managers, but recognition and professional achievements in the company may be even greater motivating factors. The best managers are always seeking new projects and challenges to develop in companies in which they believe and where they will be recognized if they deliver. There is much more than just a hefty pay-check when looking at retention and motivation. Thus, we are once again confronted with the importance of a culture of meritocracy, clear planning and objectives which allow emotional and financial satisfaction of top executives.

Conclusion:

Putting all these points into perspective when analyzing a company is a relevant part of our time. In the real world it is rare to find companies that fulfill all these boxes or do not have other flaws. Moreover, when we find such exceptional companies which have most of these characteristics, it is not uncommon that they are so expensive that leave us with only a slim margin of safety for us to invest. However, we believe that by seeking to understand each of these points, we make our investment decisions more informed on concepts that lead to the creation of shareholder value, avoiding the pitfalls of famous value traps[5].

[4] Famous tool adopted by many successful companies. Because it is such a complex methodology, it is common for companies to start with simpler tools and then, evolve to "zero based budgeting"
[5] Companies which seem to trade at attractive prices but do not generate value in the long-term

Portfolio Update

Over the last months, we have made small adjustments in order to optimize the funds' risk/return profile. It is worth noticing the significant increase in our Equatorial Energia[6] stake, based on our strong belief that the turnaround at CELPA is evolving faster than we initially expected.

Additionally, some of our thesis are maturing and we would like to share the development of one of them: Tempo Assist.

1. Tempo Assist

The company began its operations in 2000 as Connectmed. Throughout the years it grew mainly based in M&A and went public in 2007. The company´s strategy was to become a one-stop-shop in providing services, primarily for insurers.

Expansion through Acquisitions (M&A)

With the R$394 million raised in its IPO, Tempo acquired an additional five companies and made one JV, becoming a holding company comprised of five business units:

#	Business Unit	Description	# M&A's
1	Assistance (USS)	Biggest assistance company in Brazil (automotive, residential and people)	2 acquisitions
2	Homecare (Medlar)	Second largest homecare company in Brazil with 1.7k pacients	2 acquisitions
3	Health Solution (CRC/Gama)	Services and backoffice for insurers	3 acquisitions
4	Health Insurer	Health insurer with 66k lives	1 acquisitions
5	Dental Insurer	Odontal insurer with 535k lives	8 acquisitions

The resulting combination of 16 acquisitions since the company´s creation was a complex organization with little ability to extract synergies between business units and dispersed management focus. Furthermore, as a natural consequence of a company that chooses to grow quickly and inorganically, the integration of business units demanded a lot of energy which had a direct impact on the level of service of its business. Consequently, growth, profitability and cash generation were impacted.

Consolidated (R$ MM)	2007	2008	2009	2010	2011
Net Revenues	**321**	**430**	**739**	**944**	**728**
Growth %		33.7%	72.1%	27.8%	-22.9%
EBITDA	**23**	**66**	**64**	**64**	**46**
Mg. EBITDA %	7.0%	15.3%	8.6%	6.8%	6.3%

[6] In our last letter we described our investment thesis

Strategic Planning and Operational Turnaround

In 2011, after a change in the company´s top management (including the CEO - more than once so far) the new team began a simultaneous work on three main fronts: (i) strategy redesign, (ii) operational turnaround and; (iii) capital structure improvement. It was at this point that we began to monitor the company closely and made our first investment in September 2012.

During the strategic planning review, management concluded that Tempo Assist should simplify its operation and focus on businesses that: (i) were part of its DNA; (ii) solid competitive advantages and; (iii) potential and high growth markets. On the other hand, it should divest non-strategic assets and/or those that didn´t have the characteristics described above. Thus, it was decided that in subsequent years, the company would dedicate management efforts in assistance, homecare and healthcare solutions businesses. Meanwhile, it would divest the insurance assets.

In the two subsequent years (between 2011 and 2013), management spent plenty of energy to improve the company´s operations and promoted an extensive internal restructuring. Along with the change of much of the management team, processes have been redesigned to improve efficiency and control, unprofitable contracts were renegotiated and internal culture was adjusted – increasing importance and attention to the level of service and client relationship. As a result of the operational turnaround, Tempo resumed revenue growth as a consequence of the signing of new contracts as shown below:

Consolidated (R$ MM)	2011	2012	2013
Net Revenues	**728**	**894**	**965**
Var %	-22.90%	22.7%	8.0%
EBITDA	**46**	**49**	**54**
Mg. EBITDA %	6.3%	5.5%	5.6%

Additionally, the company returned R$120 million (~US$52.2 million) in dividends to shareholders in the past two years, initiating a cycle of an improved capital structure.

Non-core assets sales

After focusing for a few years in the abovementioned operational turnaround, the company started to plan the divestment of non-core assets. Thus, in late 2013 and early 2014, Tempo announced the divestment of unprofitable or loss-making assets, which aggregated little or no value to the company.

Health Insurer: The health insurer, which was loss-making, was sold to Unimed for R$30 million and the entire capital base which is necessary for the insurance operation will be released (and potentially returned to shareholders through a capital reduction). We estimate that this sale yields a positive impact of R$0.30 per share for Tempo shareholders.

Health Insurer (R$ MM)	2010	2011	2012	2013
Net Revenues	**193**	**276**	**284**	**288**
Var. %	0.00%	43.30%	3.00%	1.50%
Operating Results	**n/a**	**7**	**-8**	**-10**
Growth %	0.00%	2.60%	-2.80%	-3.50%
# lifes (000)	**81**	**91**	**103**	**73**

Dental Insurer: the operation was sold to Caixa Seguros for R$134 million (~US$58 million), creating a value of approximately R$0.60 (~US$0.26) per share, according to our estimates.

Dental Insurer (R$ MM)	2010	2011	2012	2013
Net Revenues	**93**	**71**	**74**	**85**
Var. %	-7.0%	-22.9%	3.8%	14.8%
Operating Results	**15**	**10**	**10**	**14**
Operating Mg. %	16.4%	13.7%	13.8%	17.0%
# lifes (000)	**520**	**562**	**567**	**511**

Health Solutions: Tempo Assist will receive up to 6.3 million shares of Qualicorp for the sale of this business unit, equivalent to R$190 million – although 40% will be retained and distributed if the company reaches an established earn-out[7] target. Although this unit presents interesting growth and operational result opportunities, Qualicorp offered a significant premium for the business as this operational has very interesting synergies for the buyer. According to our estimates, this sale generated R$1.3 per share (~US$0.57).

Health Solutions (R$ MM)	2010	2011	2012	2013
Net Revenues	**440**	**451**	**334**	**235**
Var. %	-1.9%	2.5%	-26.1%	-29.6%
Operating Results	**34**	**33**	**24**	**1**
Operating Mg. %	7.7%	7.4%	7.1%	0.5%

By combining the estimated net value of these three transactions, we estimate that Tempo may distribute to its shareholders within the next 12 months approximately R$300 million in dividends and/or share buybacks, which represents 40% of the company´s market

[7] Value paid by the buyer only if the company achieves specific goals pre-determined

value. Additionally, it is important to remember that Tempo´s operating income reduced only 5% despite having sold several business units.

Assistance (USS)

Tempo´s largest operation is its Assistance business unit, which is one of the leading service providers in Brazil for insurers and automakers and holds an estimated 33% market-share. The company holds assistance service contracts related to vehicles, housing and individual consumers with insurers and automakers.

USS´s differentiated modus-operandi generates a lot of competitive advantages and have been a major driver for the company to sign new contracts and renew existing ones in recent years. Among USS´s competitive advantages are: (i) large scale and a network of over 20k service providers with national coverage; (ii) better infrastructure and call center ensuring greater operational stability and; (iii) high service level.

Assistance is a critical service for insurers and automakers. Besides being a major cost component, it is one of the few points of interaction between a third party company (USS) and insurers client base and this relationship usually happens in delicate moments (whenever a claim occurs). Therefore, besides cost, level of service and operational stability materially interfere with the company´s reputation. In speaking with several USS customers, we realized that the company has evolved greatly in the quality of its service in recent years, making it the lowest cost company and at the same time, the best service provider.

Assistance (R$ MM)	2010	2011	2012	2013
Net Revenues	**227**	**264**	**401**	**467**
Var. %	18.8%	16.2%	52.1%	16.5%
Operating Results	**35**	**29**	**54**	**67**
Operating Mg. %	15.5%	10.9%	13.5%	14.3%

We believe that, besides the increase in new contracts, there is still a relevant growth in the current client base given the low insurance penetration in Brazil.

In the affinities channel, we believe there is a relevant growth opportunity. Despite the strong growth of this channel in the revenue mix in recent years, USS has only two major contracts with retailers. In this channel, the company sells a combo of support services, a product that can be considered a substitute for insurance for low-income individuals. A large portion of clients do not have enough financial resources in order to pay for a complete vehicle insurance. However, with the affinities solution, customers have access to services such as winches and mechanical support. For retailers, this is a product which brings additional service revenues with little sales effort and high margin contribution. We believe that in coming years Tempo will sign contracts with new partners.

USS obtained excellent results in recent years and we believe that this business unit has great growth potential with low capital requirements[8]. Consequently, we expect to see relevant cash flow generation and a solid growth in results.

We have personally been in touch with a large portion of the management team as well as controlling shareholders and we believe Tempo is well positioned to deliver a solid and sustainable earnings growth in the long-run. Management's proven execution ability, demonstrated in the first phase of the company´s turnaround, makes us comfortable in believing that after the conclusion of the divestment phase Tempo´s growth should be much more sustainable helped by the cultural evolution within the company and the team´s expertise.

Valuation

Tempo´s shares (TEMP3) have rallied approximately 40 % YTD, and has been one of the main contributions to the fund's performance. Nevertheless, we believe that after all the events that happened in the past 12 months, its current market valuation still presents a significant discount to the company´s intrinsic value. Therefore, we believe the case continues to be appealing. The company is currently trading at 3.7x EV/EBITDA 2014 and 2.6x 2015 with a FCF Yield of 11.8%[9] in 2014. In our view, this is very appealing given future growth perspectives and the company´s high cash conversion ratio which in turn should yield higher dividends.

Brasil Agro

We first invested in Brasil Agro in mid-2013 and described our investment thesis in our letter published in June 2013. Given the recent sale of one of the farms, we will make a brief update on the case below.

In line with the company´s strategy of purchasing undeveloped land and subsequently transforming it and then selling these agricultural areas, Brasil Agro announced in July the sale of a part of Araucária farm in the state of Goiás which had a total area of 8.124 hectares (pre-sale). Brasil Agro still holds 5.982 hectares after the sale. The transaction involved the sale of 913 agricultural[10] hectares for R$ 41.3 million (~US$ 17.9 million). However, the implicit price paid per agricultural hectare was R$45k (~ US$ 19.6k), 18% above the previous sale of 310 hectares of the same farm which happened in 2013 and 85% above the company´s internal appraisal. The transaction's implicit IRR was 19%, while the MOIC[11] was 3.9x.

In the last six years, Brasil Agro sold approximately 50k hectares equivalent to R$245 million (~US$ 106.5 million) worth of farms, slightly less than half the amount the company

[8] ROIC ~30%
[9] We considered that the company has R$ 69 million of fiscal credits of which only R$34 million may turn into cash equivalents
[10] Total area of 1.164 hectares
[11] Multiple of invested capital

raised in its IPO. All sales were made with attractive IRR´s and above our estimates, reinforcing our investment thesis of the company´s ability generate significant value .

#	Acquisition Date	Sale Date	Farm	State	#HA	#HA Agric.	Valuation (R$ MM)	Cost (R$ MM)	000 R$/Há	MOIC	IRR
1	apr/07	jun/14	Araucária	GO	1.164	913	41	11	45	3,9	19,2%
2	dec/13	apr/14	Paraguai	Paraguai	24.624	12.312	33	19	3	1,7	n/a
3	oct/06	may/13	Cremaq	PI	4.895	3201	37	11	12	3,4	23,8%
4	apr/07	may/13	Araucária	GO	394	310	10	4	33	2,7	20,2%
5	apr/10	oct/12	Horizontina	MA	14.359	8500	75	53	9	1,4	27,0%
6	sept/06	oct/11	São Pedro	GO	2.447	1.724	26	10	15	2,5	19,0%
7	jan/07	jun/08	Engenho	MS	2.022	2022	22	10	11	2,2	29,7%
	Total				**49.905**	**29.960**	**245**	**118**	**9**	**2,1**	

Brasil Agro is still trading at an unjustified discount to the value of its land portfolio. Meanwhile the company continues to execute its strategy of transforming raw land into developed land and at the same time its existing land portfolio has been increasing in value at ~18 % per year in recent years. On the other hand, the company´s fair NAV has appreciated by 13.5% since its IPO. Nevertheless, Brasil Agro is trading at 56% of its NAV[12].

HIX Capital Update

HIX Capital ended June 2014 with approximately R$70 million (~US$ 30.4 million) of Assets under management invested in equities. The recent hike in our AUM is a direct reflex of a higher amount of proceeds which have come mainly from investors with whom we have a long and enduring relationship and that fully understand our long-term investment strategy.

During the first semester of this year we structured our first special opportunity vehicle, HIX SPO I. This fund invests solely in Equatorial Energia, which is also the largest position in HIX Capital FIA´s portfolio. This is a new chapter in our company and we are very excited with future perspectives and confident of our ability to attract talents as well as develop new talents internally and consequently deliver a consistent and solid performance for our investors in the long-term.

Best,

HIX Capital management team

[12] Net Asset Value