HIX Capital

"Fear that the market is risky can render it quite safe"
(Howard Marks)

Dear Investors,

HIX Capital is an independent asset management firm focused on Brazilian equities. Our goal is to maximize returns on invested capital through a portfolio concentrated in high quality names. We look for: easy to understand businesses, highly qualified management teams and compelling potential returns. We strive to deeply know the companies as much as possible.

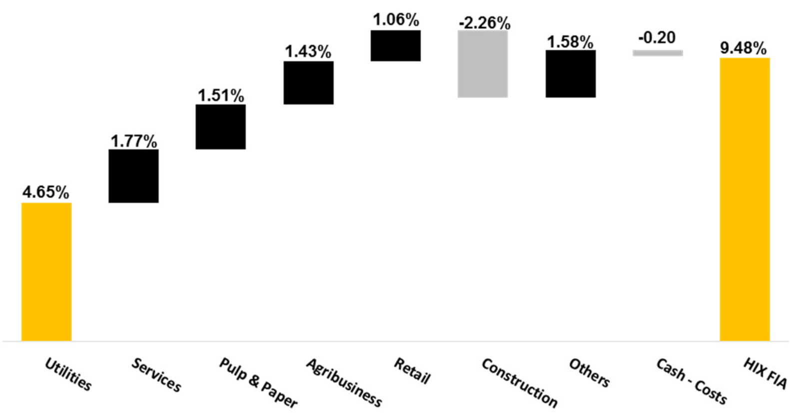
In 1S15, HIX Capital FIA delivered a positive return of 9.48% in comparison to a 6.2% gain of the Ibovespa . Since May 2005, the portfolio managed by HIX Capital FIA's team gained 691% compared to 107% of the Ibovespa[1]. The main positive contributions in 2015 were Equatorial Energia, Tempo Assist, Dufry and Brasil Agro, while Even and Portobello generated the greatest losses during the same period.

Consolidated Results - HIX Capital FIA (%)

Year	HIX	Ibovespa	IPCA + 6%
2012	13.1%	6.8%	4.6%
2013	8.8%	-15.5%	12.2%
2014	3.9%	-2.8%	12.6%
2015	9.5%	6.2%	9.2%
Since Inception	39.9%	-7.0%	44.3%

Source: HIX Capital

Performance Attribution 1S15 – HIX Capital FIA



Source: HIX Capital

[1] Considering the performance of Clube de Investimentos Keep Investing from May 2005 until August 2012. The annualized performance was 23.1% per year versus 7.3% per year from Ibovespa index.

During this semester we had no relevant changes in our core portfolio companies despite our active search for new ideas. We fully divested from smaller positions such as BB Seguridade, Abril Educação and Ânima. On the other hand, new investments were made: Senior Solution, CVC, Qualicorp, Real State Funds and Kraft Heinz.

With the combined effect of the portfolio appreciation and growth in profits, we continue to expect double digit growth rates in our companies and see our consolidated portfolio trading at a reasonable P/E 2015 of 13.4x.We finished 1S15 with 15% of our total AuM in cash equivalents and are ready to take advantage of new opportunities.

HIX FIA Holding Operational Performance

BRL Billions	2013A	2014A	2015E
Net Revenue	9.8	11.3	13.3
Growth %		14.9%	17.7%
Net Profit	1.6	2.0	2.2
Growth %		19.8%	14.0%
P/E Fwd.	**13.5x**	**11.7x**	**13.4x**

Source: HIX Capital

SCENARIO UPDATE:

Since the beginning of 2013, we have argued that the Brazilian economy would suffer from a slowdown in subsequent years [2]. More recently this crisis was crystalized and had a relevant impact on investors' confidence. This crisis is both political - involving the exhaustion of the alliance and control model of power used by Brazil´s ruling party, PT – and economic - involving the exhaustion of the "New Economic Matrix" of the current government. By analyzing the situation, two perceptions seem clear: (i) changes are needed in the status quo, both from a political point of view, through a new balance of power and influence in the legislative and executive, and also economic through a fiscal adjustment and reforms that will help place the country back on the path of competitiveness and growth and; (ii) we will go through a period of vast uncertainty for investments in Brazil.

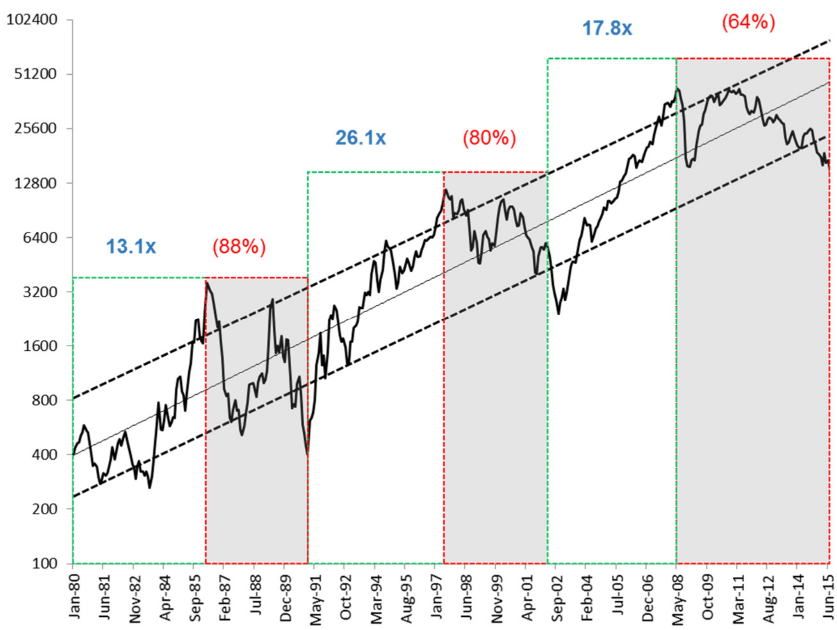
There is a consensual perception that crisis are excellent times to invest [3]. However, the number of investors which actually have courage to buy assets in difficult times is quite small. This is not surprising, after all, moments of great uncertainty make it very hard to predict what will happen to companies' results. For those who have the courage to invest it is practically impossible to know whether we have reached the bottom or if there is still room for further adjustments [4]. It is worth noting that striking the bull's eye, or the best entry point, is impossible. Therefore, good investors

[2] In the letter of June 2013, we assumed that "In this scenario (...) of lower growth in the next years, we believe that what worked in the past will not necessarily work in the future. The growth rates of good companies in consumer goods, service and retail sectors should slowdown ..."
[3] Mega-investor Warren Buffet once said: " Be Fearful When Others Are Greedy and Greedy When Others Are Fearful."
[4] We do not believe we are able to predict in which moment of the cycle we are in.

gradually increase their stakes when 2/3 or so of the correction in prices has happened. This seems to be the case of the current cycle in Brazil [5].

For those who are curious, we demonstrate below, the returns of the investors who had the courage to invest in Brazilian equities [6] in each of the major crisis since the early 80s [7]. If, hypothetically, an investor had bought the Ibovespa at the lowest point in 2002 and sold it in the subsequent peak, which was in 2008, it would have multiplied its capital by 16x in USD terms.

Ibovespa in USD



Source: HIX Capital

If we had to bet if the Ibovespa has reached the bottom, our answer would probably be “no”. However, when analyzing the market we see that there is a very heterogeneous distribution of valuations. Thus, it is possible to find opportunities in several companies of different segments and sizes. To capture these opportunities it is important to be flexible, both in our mandate (without restricting the asset classes, sectors or companies’ sizes) as well as in our mindset, not holding onto absolute truths, current perceptions and paradigms.

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[5] The market tops with 64% in price correction, while the average portfolio allocation started after an 80% correction in past cycles.
[6] To keep it simple, we price the Ibovespa index in US dollars. We believe that index funds investors could have had better returns with IBX index and actively managed funds investors could have been delivered even greater returns.
[7] Here’s an instigation on how cyclical the market may be. It looks some sort of crisis arises in market every 10 years, which accounts an 11% per year deviation in average return

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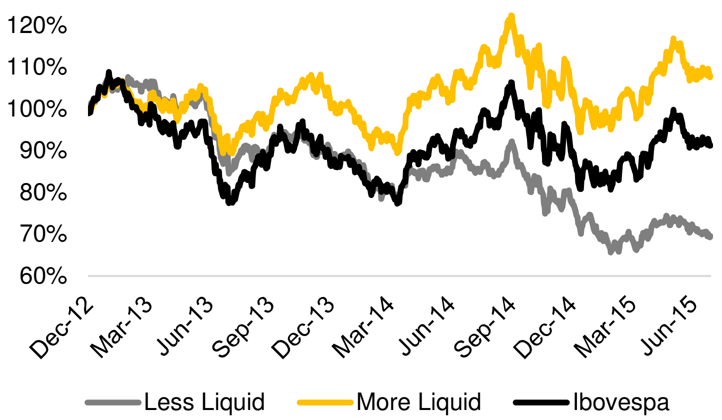
An example of the wide dispersion of valuations is the difference in performance between more liquid and less liquid companies in recent years [8]. On one hand we find several large companies, with excellent features trading at a range of 20-25x P/E, which, in our view, seems high. On the other hand we find small and mid-cap companies, with great businesses as well, trading high single digits on a P/E basis, which is close to what we judge as a "floor" in valuation terms. We believe that this movement has happened as small caps became "orphans" of investors as a result of: (i) many of the funds dedicated to Small Caps closed or reduced in size, (ii) Brazilians individuals have reduced to close to zero their exposure in equities and; (iii) foreign investors do not look at these companies due to their low liquidity.

Relative performance of more and less liquid companies



Source: Bovespa e HIX Capital

Our goal is to look for investment opportunities which have a compelling return and a very low risk of permanent capital loss. In some cases, such opportunities appear in companies that for different reasons are being mispriced but after a thorough analysis seem like good and contrarian investments. Last year, we had the chance to build a core position in Equatorial Energia at low prices as investors went into panic with the potential side effects of a possible power rationing [9]. Currently there are several good companies such as Brasil Agro, Senior Solution and Tecnisa that trade at very attractive prices as investors are on a "risk off" mode.

In summary, we do not believe that an average basket of Brazilian equities is necessarily a good investment despite current valuations. However, we have been able to find specific and very appealing opportunities which we expect will generate good returns over the next years.

[8] For comparison purposes we use the Mid-Large Cap index for more liquid shares and the BOVESPA Small Caps Index for less liquid shares.

[9] We believed that the effects of rationing at CEMAR and CELPA would be small and of short duration, which gave us a lot of confidence in the investment case.

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PORTFOLIO UPDATE:

Our portfolio remains invested mainly in resilient business whose results are little correlated with short-term economical movements. Our fear that the economy would lose strength and, consequently, consumption would be affected, led us in recent years to invest in companies that do not suffer much from a compression in available income. This decision has paid off so far and we believe that such strategy still makes sense.

Most companies which comprise our portfolio have revenue growth dynamics that do not pose much downside risk for top-line growth in the foreseeable future.

Company	% Portfolio	Volume Dynamics	Price Dynamics
Company	16%	Non-discretionary volumes	Fixed contractually by inflation
Dufry e Kraft	16%	Diversified volumes in the global market	Prices and costs in USD/EUR
Tempo Assist	8%	Contractual demand with reasonable switching cost	Prices adjusted to service inflation
Brasil Agro	7%	Production towards Exports (*agro-commodities*)	Prices in USD
Klabin	6%	Remaining exported demand reduces pressure on local market.	Prices in USD and costs in R$
Senior Solution	5%	Contractual demand with high switching cost	Fixed contractually by inflation
Qualicorp	3%	High demand resilient service (healthcare operator)	Prices adjusted to average inflation
Total	**61%**		

DUFRY:

Our investment on Dufry began in early 2006 through its Brazilian subsidiary – Dufry South America. In 2010, we converted our shares into Dufry AG Brazilian DRs at approximately 160 BRL per share and since then, its value has appreciated by 200% or 23% per year.

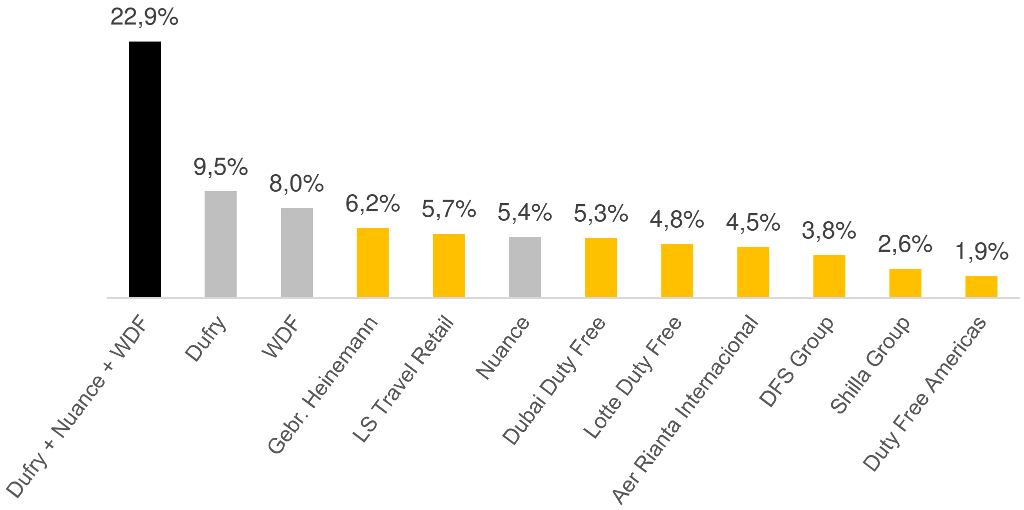
Over the past 12 months, Dufry acquired two of its main competitors: Nuance in 2014 and World Duty Free Group in 2015. The combined company is by far the largest global travel retailer.

Nuance was bought in June 2014 for CHS 1.5 billion and at the time had a turnover of CHF 2 billion and EBITDA of 150 MM. Standalone the company was nearly 30% of Dufry's size [10]and the deal was closed at an EV/EBITDA multiple of approximately 7.5x [11]–in line with Dufry's acquisition track record. A relevant consideration regarding this acquisition is the complimentary footprint and the vast access to the Asian market that Nuance has, creating relevant growth opportunities.

In March 2015, Dufry announced the acquisition of its largest competitor - The World Duty Free Group (WDFG) for 3.6 billion Euros. With this acquisition Dufry will become the undisputed leader in the industry with a 22.9% of the world's market share, 3.7x larger than its 2nd direct competitor and larger than the sum of its 2nd, 3rd, 4th and 5th competitors together.

[10] In terms of operational results.
[11] Multiple measured by summing up announced synergies. Multiple could raise up to 10x without synergies.

Travel retail market share



WDF´s acquisition larger and more important from a strategical standpoint than Nuance. WDF posted a turnover in 2014 of EUR 2.5 billion and EBITDA of 250 mm. The deal was done at an EV/EBITDA of 9.2x, adjusted for announced synergies. At a first glance this deal seems relatively expensive. However, a second analysis shows a significant strategic value in the transaction:

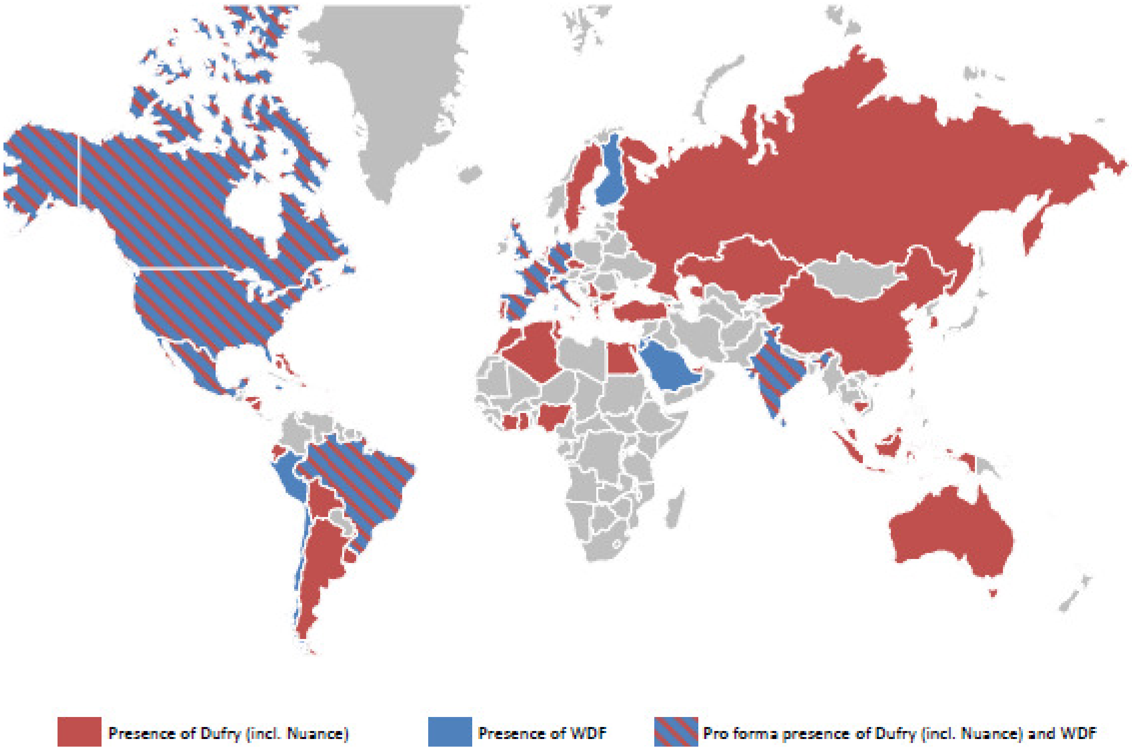
- The combined company will have na annual turonver of CHF 8 billion or 2.3x Dufry´s 2013 turnover. Additionally, we believe that there is relevant room for gross margin expansion given the sheer size of the new company. Other gains such as lower interest rates and G&A dilution are no irrelevant.

Company	2013 Revenue	Gross Margin	EBITDA Margin
Dufry (2013)	**3,572**	**59.0%**	**14.9%**
WDFG (2014)	2,407	58.7%	10.8%
Nuance (2013	2,095	55.8%	9.7%

Source: HIX Capital

- With 22.9% of the global market share, Dufry will have a very relevant scale and margin advantage that should enable the company to outbid most of its competitors in new concessions or renewals.

- With both acquisitions Dufry gained access to Tier 1 airports in UK and Spain, which have revenues of EUR 1 billion and EUR 600 mm respectively, in addition to a good portfolio in Asia, North America and Peru. The geographical diversification of the new company is impressive, as shown below:



Source: Dufry

Integration will undoubtedly be very tough. However, the company´s management team is highly skilled and has been leading Dufry since 2004 and have conducted [12]7 large M&A´s since then. Therefore, we believe that despite the great complexity of the process, operations will be successfully integrated, and substantial value will be created for shareholders.

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 company´s largest assets, the Cremaq farm, we will make a brief update on this investment below:

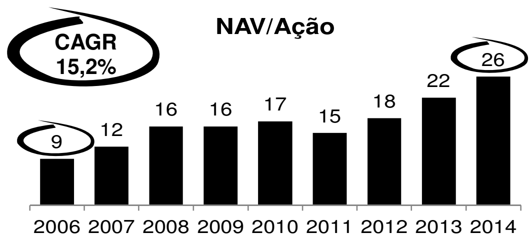
Land as a long-term value play: it is widely known that the world population is growing and migrating to urbanized, which increases protein consumption. On the other hand, land availability is limited. However, Brazil is one of the few countries that has extensive arable and competitive land available. Ultimately food demand is the key factor to determine the price of commodities [13]and consequently becomes the main driver for land prices in the long-term.

Business Model and Valuation: As we have mentioned in our June 2013 letter, we prefer the business of land transformation (developing gross land into arable land) relative to the business of being a land operator given the return of each business model. Since its IPO, Brasil Agro´s NAV has increased at annual rate of 15.2% (despite having an inefficient capital structure and large

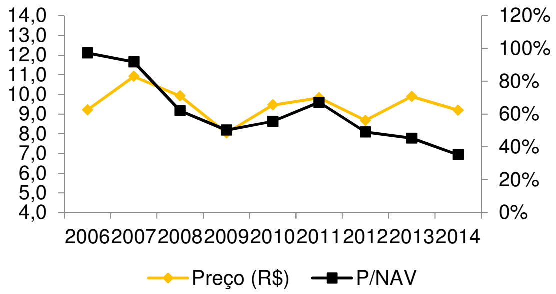
[12] Synergies arrived at announced values and in some cases have beaten estimates.
[13] Besides some secular factors like productivity and other volatile variables like exchange rates.

overhead in its preliminary stages back in 2007), which is much more than the return of traditional land operators. Additionally, Brasil Agro trades at a significant discount to its assets value (farms).

NAV / Share (R$) – *Non-Dilluted*



Share price since IPO and Price/NAV



Source: HIX Capital e Brasil Agro

Inflection point: when we first invested in Brasil Agro, we believed the company was close to a cycle of mature farms monetization after having spent several years investing in the transformation of the acquired farms. Since its IPO, the company divested of 8 properties with and IRR of over 19% per year (at the farm level). Since our Investment, Brasil Agro sold approximately R$377 million worth of farms.

The most recent and relevant deal in the history of the company was Cremaq (27.8k hectares). The sale was closed in June 2015 for R$ 270 million (4.3x the invested capital and 10% above the last appraisal report), emphasizing once again the company's ability to generate value in this business.

#	Farm	Acquisition Date	Sale Date	State	Culture	Acquisition + Capex	Sale Value	MOIC	IRR
1	Engenho	jan/07	jun/08	MS	Cane	10	22	2.2 x	29.7%
2	São Pedro	sep/06	sep/11	GO	Cane	10	26	2.5 x	19.0%
3	Horizontina	apr/10	sep/12	MA	Grains	53	75	1.4 x	27.0%
4	Araucária	apr/07	may/13	GO	Cane	4	10	2.7 x	20.2%
5	Cremaq	oct/06	may/13	PI	Grains	11	38	3.5 x	23.8%
6	Cresca	dec/13	apr/14	Paraguay	Pasture and Grains	10	17	1.7 x	N/A
7	Araucária	apr/07	jun/14	GO	Cane	11	41	3.9 x	19.2%
8	Cremaq	oct/06	jun/15	PI	Grains	64	270	4.3 x	20.4%
	Total					**172**	**500**	**2.9 x**	

Source: HIX Capital

Current Valuation: Despite the company's success in its monetization strategy the company´s market value remains at a 47% discount to its NAV. This discount is even more pronounced after the Cremaq deal given that 50% of Brasil Agro´s market value is cash and accounts receivable from farm sales. The other 50% are farms which are implicitly being priced at a 36% discount to their fair value. The land portfolio is being priced at BRL 2.6k per hectare (well below liquidation value) and 44% of all farms are arable (mature for a sale). We expect the company´s NAV to increase even more as the remaining 56% of the assets develop into arable farms.

		% Mkt Cap
Mkt Cap	**652**	
Price (BRL)	11.20	
# Shares	58	
Cash	172	26%
Receivables from farm sales	29	4%
Net Working Capital	129	20%
Farms	329	50%
Other liabilities	-7	-1%
P/NAV (implicit from farms)	**36%**	

Source: HIX Capital

We believe the market does not price Brasil Agro accordingly. Despite a 22% gain in shares this year, the discount to its fair value has increased. In 2H15 the company will return a significant part of the proceeds from the Creamq sale to its shareholders via an 8% dividend yield distribution and a significant buyback. The remaining cash will be used for the acquisition of new farms.

REAL ESTATE FUNDS (REIT´s):

In January 2015 we set up a new investment vehicle, the first one comprising solely of a real estate strategy. Our goal is to buy shares of listed real estate investment funds (equivalent to REITS´s), which own triple A and corporate assets in São Paulo and are trading at a significant discount to replacement cost. The main pillars of our thesis are:

(i) Acquisition of Premium Assets with a significant discount to fair value
(ii) Corporate real estate market in SP is near to the bottom of the cycle;
(iii) Assets held by real estate investment funds are trading at a discount of ~ 40% relative to private transactions in equivalent properties and ~ 20% below replacement cost (not considering the developers profit margin);
(iv) High (current) dividend yields (8.5% -12.0% p.y.) with room for improvements over time

Over the past few years, the corporate real estate market was penalized due to a significant deterioration in the macroeconomic environment coupled with a high volume of deliveries of projects which had been started between 2010 and 2012. This situation has led to high vacancy levels (around 19.7% in SP). Consequently, there was an increase in competition which caused a reduction in the value of rents (e.g: average rent for AAA assets in the region of Faria Lima are around R$110/m² today vs. R$150/m² in 2013). This reduction in the value of rents coupled with an increase in interest rates triggered a loss of ~30% of the value of listed assets and allowed us to invest with a large margin of safety. After all, we are buying assets well below replacement cost and with a current dividend yields of 9.5% p.y., at a time of depressed rents and high vacancy.

In order to mitigate risks in a market where supply is still growing, we focused our investments in regions with high levels of net absorption, since in these moments poorly located assets lose competitiveness. Besides, we have seen a higher gross absorption in AAA assets than in second tier buildings.

Since the current rental value does not remunerate new incorporations based on the cost of construction, we don´t expect significant volume of deliveries from 2016 until 2019. This should allow the market to adjust with a gradual absorption of vacant areas and an increase in the value of rentals. The natural consequence of this movement is that the value of assets also increase and exceeds the replacement cost, getting closer to the value of assets being traded in the private market. This should happen from 2017 onwards.

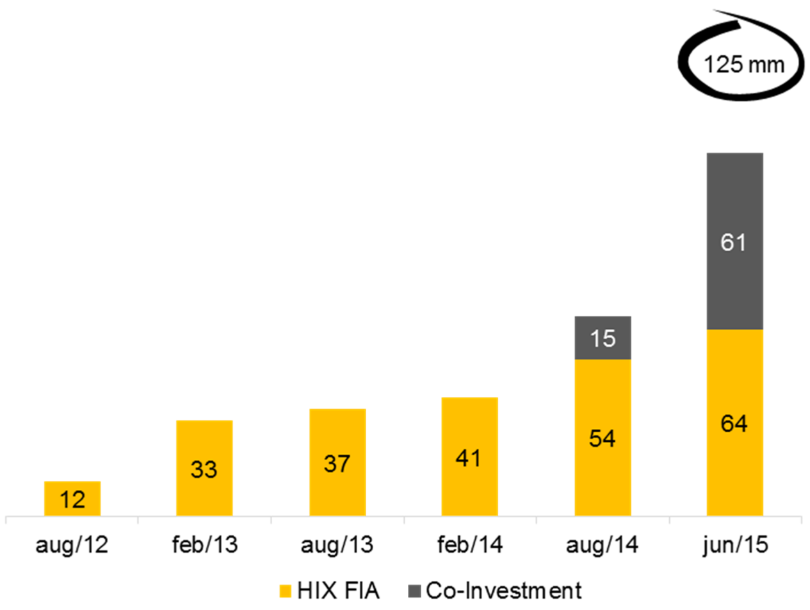
According to our estimates, a rental value of R$150-160/m² (at today's values) is necessary to deliver adequate returns for developers willing to build in the Faria Lima region, where construction + permits + land plots cost around R$ 16-17k/m². In other words, the average rental value would need to rise around 20% so that new supply comes to market, assuming that developers are rational in their decision making.

Finally, we believe that the convergence between the market price and the fair price of these assets will happen due to: (i) an increase in income due to better rental values as vacancy rates reduces; (ii) larger flow of institutional investors into the REIT universe; (iii) sale of assets or takeover of funds by long-term investors.

HIX CAPITAL UPDATES:

HIX ended June of 2015 with approximately R$ 125 million of assets under management. Our main investors remain are still our partners, families with a very close relationship and familly offices, with whom we have direct relationship. All investors understand our investment strategy and are aligned with our long-term investment horizon. At the same time, we are intensifying our institutional client base.

Growth HIX Capital (R$ million)



Throughout 2015 we have accomplished important milestones. We have reinforced our team with new hires for our investment analysis, operations and relationship areas. We have also been working intensely to consistently improve our screening, risk, trading and portfolio setup processes.

We believe that few factors are as important for a company as having great people aligned and working cohesively for a long period. We are glad that most of our team has been working together for a long period and our processes have been constantly improving, which shall make the future even better than the past.

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

We appreciate the trust,

HIX Capital Management Team