" …if a business earns 18% on capital over 20 or 30 years, even if you pay an expensive looking price, you will end up with a fine result. [1]*"*
(Charlie Munger)

Dear Investors,

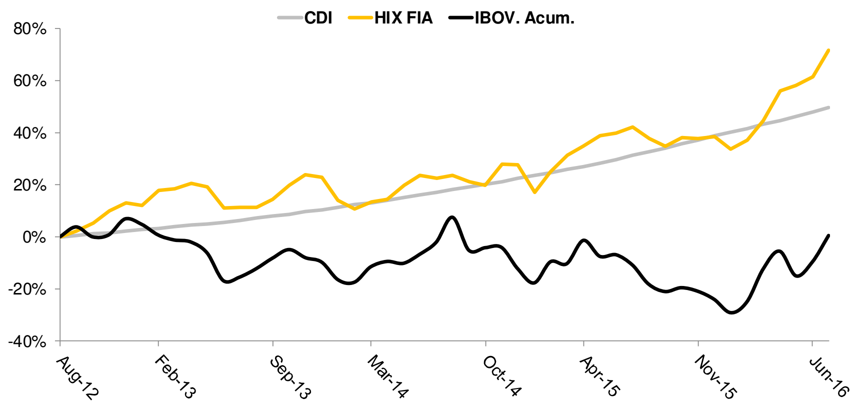
HIX Capital is an independent asset management firm focused on investing in Brazilian equities. HIX Capital Equities Fund´s goal is to maximize return on invested capital through a concentrated portfolio of high quality companies. In other words, we look for business's that: (i) have simple business models (ii) are well managed (iii) negotiate at compelling potential returns. We strive to know the companies as deeply as possible.

During the first semester of 2016, HIX Capital FIA gained 16.6%, whilst the Ibovespa index gained 18.8%. Since its inception, HIX Capital FIA has accrued gains of 61.42% compared to a Ibovespa devaluation of -9.70%, and a CDI gain of 47.96%. The portfolio managed by HIX Capital's founding partners has a performance of 812% since inception (May 2005), compared to 101% of the Ibovespa[2].

Consolidated Results

Year	HIX INST	HIX FIA	Ibovespa	CDI
2012	-	13.09%	6.82%	2.26%
2013	-	8.78%	-15.50%	8.05%
2014	-	3.86%	-2.91%	10.81%
2015	-1.43%[3]	8.28%	-13.31%	13.25%
2016	16.29%	16.64%	18.87%	6.64%
Since Inception	14.62%	61.42%	-9.70%	47.96%

Source: HIX Capital



During the first half of 2016 the main contributors to the fund's performance came from our investments in Equatorial Energia, Rumo and Par Corretora. In contrast, Klabin and Dufry were the portfolio's main laggards, although mitigated by our USD hedge exposure. Please find below

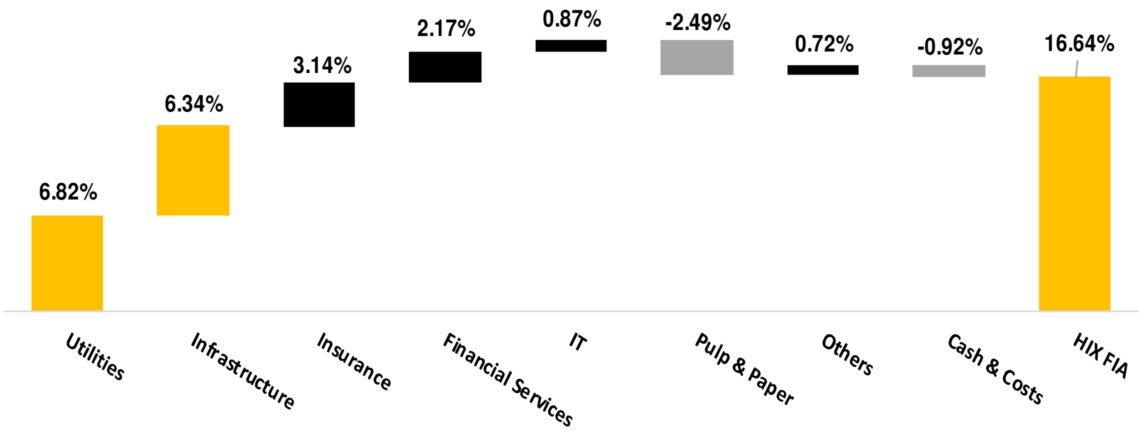
[1] This quote from Charlie Munger is an excerpt of the speech "*The art of stock picking as a subdivision of the art of worldly wisdom*". Link: *http://www.grahamanddoddsville.net/wordpress/Files/Gurus/Charlie Munger/Charlie Munger _ Art of Stock Picking.pdf*

[2] Includes the performance of the Investment Club *Keep Investing* from May 2005 to August 2012. The portfolio's annualized performance until June 2016 was 21.6% p.a. versus 6.5% p.a. from the Ibovespa.

[3] The performance of the HIX Institutional fund takes into account the period between 11/03/2015 and 06/30/2016. During the same period the Ibovespa appreciated by 7.2%

the fund's performance attribution by sector.

Performance Attribution 1st Half 2016: HIX Capital FIA



Source: HIX Capital

SCENARIO & PORTFOLIO UPDATE:

During the first semester 2016, we faced intense market volatility. At the start of the year exaggerated pessimism, reflecting Brazil's delicate political and economic situation under the Dilma government, took over the markets, leading to strong capital flight from the market. Shortly after, thanks to the unfolding of the impeachment process, investors' hopes and expectations that an improvement stimulated by more restrictive fiscal policies would lead to more confidence and bring back investment, further affected financial markets. The Ibovespa, as well as other economic "thermometers", such as interest and exchange rates, oscillated strongly. In our view, this roller-coaster derives from the lack of investor clarity and conviction regarding the Brazilian economic and political scenario in the upcoming years, allied with great uncertainty about the effects that Brexit[4] and a possible Chinese slowdown could cause in the Global economy.

At HIX we are cautiously optimistic about the Equity investment scenario. Optimistic because the current Temer (Acting president) government has shown early alignment with the project to resume sustainable growth. Cautious because Brazil's fiscal situation is complex, and the Brazilian economic environment remains strongly recessive[5], making the lives of companies and the general population very difficult. On a positive note, we would like to stress two positive events: (i) Temer appointed a new economic team, which is competent and experienced, as well as a political backdrop which is more cooperative and has pleased the market; (ii) state run companies also gained new managerial teams, which in opposite from from the prior administration are being populated by appropriately skilled and experienced people[6] with a clear plan focusing on financial restructuring and operational efficiency gains.

We prefer avoiding spending too much time trying to figure out exactly what will happen to the economy, and rather focus on understanding what the prices of companies we like reflect on their

[4] Referendum on the United Kingdom's withdrawal from the European Union
[5] Technically, we are already witnessing an Economic Depression
[6] It is Worth mentioning Pedro Parente at Petrobras and Wilson Ferreira in Eletrobrás.

growth expectations. So it is noteworthy that we remain excited with the current opportunities to buy good companies, with predicable results and sustainable competitive advantages, still at attractive prices. This is one of our Portfolios' main growth drivers in the coming years.

Despite the volatility faced by the markets, the funds' main positions and exposures have not changed much. We have made small adjustments, having divested completely from CVC and Qualicorp and, on the other hand, invested in Rumo[7]. The main reason for the divestment in CVC was the appreciation of the stock, which rose above what we thought was a reasonable price. In the case of Qualicorp, there was a change in the Board of Directors, which left us uncomfortable with the future prospects of the company. At the end of June, the Fund had a cash level of 13.3%

At the risk of sounding repetitive, we believe it is important to clarify that our portfolio continues to be allocated mainly in resilient and predictable businesses. The results of these companies have low correlation with the short-term outcomes of the Brazilian economy. We believe it is very important to seek investment opportunities in companies that have projects which will lead to profit growth regardless of a potential economic improvement. Approximately 60% of the funds' assets are invested in companies that have profit growth dynamics resilient to the current environment we are living in (detailed below). These companies, for various reasons, have dynamic sales volumes and product pricing, allowing their operations to not suffer large downside risks in the coming years:

Company	% Portfolio	Volume Dynamics	Price Dynamics
Dufry e Kraft	18%	Diversified for the Global Market	Prices and costs in US$ and EUR
Equatorial	14%	Non-discretionary volumes	Contractually adjusted by inflation
Klabin	11%	Surplus stock is exported, reducing pressure on local market	Good pricing power in the local market
Par Corretora e BB Seguridade	9%	Revenue has a long-term stacking characteristic	Inflation adjusted prices
Senior Solution	5%	Contract based with very high switching costs	Contractually adjusted by inflation
Renova	2%	Long-term power sales contracts	Contractually adjusted by inflation
Total	**59%**		

Despite the recent stock appreciation, thanks to earnings growth of portfolio companies and the adjustments mentioned above, our portfolio's combined P/E 2016 multiple of 13.1x remains quite attractive given the prospects for strong profit growth in the coming years. We continue to work hard to find new opportunities, and the productivity of our team continues to grow.

Earnings Performance (HIX FIA Holding Simulation)

	2013A	2014A	2015 A	2016 E
Net Revenue	75.5	89.0	100.0	111.6
Growth%		17.8%	12.4%	11.6%
Net margin	16.9	19.9	24.6	30.6
Growth %		17.8%	23.7%	24.1%
P/E Fwd.	**13.5X**	**11.7X**	**13.4X**	**13.1X**

Source: HIX Capital

INVESTMENTS REFLECTIONS: REINVESTMENT MOAT:

A subject that is frequently on our internal discussion agenda about the characteristics we look for in our investments is the importance to buy companies that have a high Return on Invested Capital,

[7] We built a small position in Rumo to obtain the right to participate in the company's capital increase that took place in April. The funds' maximum exposure to the stock at cost and at market was 7% and 10%, respectively. Due to the company's rapid appreciation, the same position was reduced to 5% by semester's end.

also known as ROIC. In this letter, we decided to explain briefly one of our conclusions on the subject: In summary, our view is that it is ideal to seek companies that have a significant pipeline of investment opportunities, with these opportunities themselves presenting a high ROIC.

There is a trend amongst investment analysts who look for companies with extremely high ROICs, based on a belief that it ensures exceptional rate of return for stocks over time. Discussing this subject, we ended up reading several studies and articles, amongst them one by Maboussin[8], which empirically proves something we understood already to be true: high ROICs only help in the shares returns when the company still has room to grow without damaging its indicator.

In a competitive market, high rates of return are anomalies. When a company starts to make a lot of money in a specific segment or product, their competition quickly realizes the opportunity to enter the same sector. With increasing competition for customers, margins tend to be compressed, leading to a fall in profitability and a convergence of the sectors average cost of capital. For a company to maintain high ROIC sustainably, it must have maintainable competitive advantages, such as a patent, a strong brand, a wide distribution network, a very productive farm or even long-term contracts.

This brings us to the key point in our discussion, because in our view there are two ways to look at companies with high ROIC[9]:

1. There are companies with current operations at high ROIC levels which present sustainable competitive advantages, in time capable of maintaining current levels, but with no major growth opportunities with these same profitability levels (Legacy Moat);
2. There are companies with current operations at high ROIC levels which present sustainable competitive advantages, in time capable of maintaining current levels, which also have great growth opportunities with the same profitability levels (Reinvestment Moat);

Legacy Moat: This type of competitive advantage is the most common and does not apply to new projects and investments. A simple example is: A very productive farm, with fertile soil, with lots of sunshine, and the ideal quantity of rain (occurring during plantation and before the harvest). The happy and satisfied owner of this farm, which produces 120 bushels of soybean per hectare each year, acquired the farm many years ago before other people knew the area, and therefore only paid the equivalent of 600 bushels per hectare. Thus, the ROIC of this property reaches an impressive 20% p.a. Unfortunately for the farmer, when trying to purchase his neighbor's property in order to reinvest the proceeds of his farm, found out they were also very satisfied with their farms and wouldn't sell their operation for less than 2,000 bushels per hectare. Therefore, in this example, the ROIC of our farmer's new project would be only 6% p.a., considered mediocre at best. So the fact that the investment's original ROIC was high does not help our farmer maintain good return over invested capital generated by the profit of his farm.

When identifying companies with this type of competitive advantage, it is very important to be disciplined and pay the fair price, as overpaying could effectively turn a seemingly good return on investment into a mediocre one.

Reinvestment Moat: This second type of competitive advantage is scarcer and takes into consideration the composition of extraordinary returns over time. Unfortunately, finding companies

[8] *ROIC Patterns and Shareholder Returns - Sorting Fundamentals and Expectations.* Brief but interesting article.
[9] Our curious investors can read the original article in the following link: http://basehitinvesting.com/importance-of-roic-reinvestment-vs-legacy-moats/

that have a real Reinvestment Moat is very rare, and typically when found the price of their shares tend to be very high. This is the case of companies like Cielo, Renner and Ambev.

To better understand what we are talking about, it worth thinking about Wal-Mart in the United States in 1972. At that moment they had 51 stores, performing extremely well, obtaining a ROIC of 52%. They noticed that their store business model was working, taking their distinctive store format to small population centers, with a fanatical devotion to bring low prices to its consumers, and therefore completely dominating the region's retail business. Each one of Sam Walton's stores had its own Legacy Moat, presenting results that were between stable and slightly increasing. However, Walmart's greatest value was the ability to continue replicating this business model to neighboring cities, opening stores with exceptional returns, which guarantees their Reinvestment Moat. Thus, in the next decades the company constantly reinvested the profit of its stores in the opening of new locations and began dominating more and more regions in the United States. Currently there are more than 11,000 Wal-Mart stores worldwide and its operating income grew at an average rate of 22% p.a. during the last 50 years. We are always looking for the next Wal-Mart!

INVESTMENT THESIS UPDATE:

Various companies in our portfolio have some kind of Reinvestment Moat. Equatorial for example has an enormous investment pipeline which, in addition to improving consumer service quality, should create shareholder value. Par Corretora, another relevant position, also has the same feature, given its exclusive contract to sell insurance in Caixa Econômica Federals (one of Brazil's largest banks) branches. Below we will further detail our investment thesis two positions we haven't mentioned, but believe have the same characteristics.

Rumo Logística

For some time, we have followed América Latina Logistica's (ALL) operations. The company was born in 1997, during a period of privatization of the Brazilian railway network, when GP Investments acquired Ferrovia Atlântico Sul. From then on ALL, which had its IPO in 2004, grew through acquisitions of railroads in Brazil and Argentina. In 2006, through the acquisition of Brasil Ferrovias and Novoeste Brasil, the company began operating in strategic areas of the Brazilian Midwest and São Paulo State.

GP fully divested from the company in 2009, shortly after ALL signed a contract with Rumo, another railway operator controlled by Cosan, to transport sugar from the State of Mato Grosso to the port of Santos. Rumo invested R$ 1.2 billion in rolling stock and railways to transport sugar. For ALL, the contract with Rumo had short-term benefits, as it increased transport capacity with modern rolling stock. However, it was uneconomical, as the returns of grain transport in the same route was greater than that of sugar.

Between 2009 and 2015, ALL went through a period of great operational instability. A beyond reasonable number of different CEOs exercised company leadership, as well as numerous financial and operational directors. In addition, the company had an exaggerated compensation structure focused on short-term results[10], with no active controlling shareholder, leading to under-investment in maintenance and equipment. The immediate consequence was the reduction of the company's transport capacity. Due to the network's limited capacity and attempt to maximize results, ALL failed to honor its volume commitments with Rumo and began transporting more soybeans, which was more profitable, as opposed to sugar. This led Rumo to open a litigation process against ALL, a

[10] Mainly focused on yearly EBITDA

process which was quite harmful for both companies. Even though Rumo was the active party in the litigation process, it was hampered by ALL's situation, as its' rail network was essential to guarantee Rumo's strategic position in the transport and storage of sugar. Thus, in 2014, in order to reconcile the companies, a merger proposal was made[11].

In 2015 the merger between Rumo and ALL was concluded, consolidating Rumo Logística as the largest independent railway operator in Brazil. Its rail network consists of 4 concessions and a grain terminal in the port of Santos, considered the largest terminal in South America, an unmatched and extremely strategic asset in grain and sugar flow. Despite Rumo holding such a strategic asset, having a resilient revenue (80% of the company's demand is concentrated on agricultural commodity exports), a growing market, as well as being a more competitive logistic option than road transport, the company has suffered from having limited capacity due to the scrapping state of its assets due to lack of past investment, and presenting poor operational performance[12].

Late last year, Rumo reached an unsustainable leveraged financial situation. The only solution to the problem was a substantial capital increase, combined with the renegotiation of existing debt in order to unlock access to new financing. Henceforth, given the asset potential and the focus of Rumo's team to turnaround the Company, we bought a small position in the fund, and thus partook in its capital increase in April, at which time the position became quite relevant (~8% of the fund).

Rumo's operation consists of 4 concessions organized by Operações Norte (North Operations) and Operações Sul (South Operations):

Operation	Concession	Maturity
Operações Norte	Malha Paulista	2079
	Malha Norte	2029
Operações Sul	Malha Sul	2027
	Malha Oeste	2026

The North operation is composed of the Paulista and North railways, Rumo's main strategic network which concentrates 67% of transported volume and 87% of the company's EBITDA, and connects the State of Mato Grosso, from the Rondonópolis terminal, to the port of Santos, a route which is responsible for 70% of the grain flow in Brazil.

Continued on the Next Page

[11] A Merger which would best be described as an acquisition of ALL by Rumo.
[12] The Worst in the sector when compared to other rail operators.

Our Investment thesis is based on financial and operational turnaround, which would cause increased capacity and profitability (EBITDA/RTK[13]), which will allow the company to capture the repressed demand of grain and sugar flow (due to rail transport being more competitive and truck drivers unable to enter a price war).

Financial Turnaround: Will improve the company's liquidity, and realize its investment plan. We can divide this process into 3 steps:

1.) **Capital Increase**: The company raised the equivalent of R$2.6 billion, allowing new access to the credit market.
2.) **Reprofiling of Debt**: Lengthening of debt maturities for the next 3 years. This allows the company to direct its short to mid-term cash flows towards high yield investments.
3.) **Long-Term Financing:** The objective is to obtain long-term financing at a low cost to enable the company's expansion plan. The BNDES (Brazil's Development Bank) has already indicated the availability of R$2.5 billion in direct and indirect lines of credit and up to R$300 million participation in the emission of the company's convertible debentures (FI-FGTS should participate with R$1 billion in convertible debentures).

Operational Turnaround: Once the financial turnaround was under way, it became possible to execute the investment plan designed by management, which consists in a series of high marginal ROIC initiatives, thus generating shareholder value. These projects are in some way a Reinvestment Moat, as the company simply needs to execute them in order to benefit from their created value.

The value creation drivers can, through investment and operational improvement, add volume and reduce the unit cost of transport. In order to add overall volume, it is necessary to increase

[13] EBITDA/RTK: Operational Income per Real Tonne per Kilometer (1 tonne transported every 1000km equals 1000RTK)

the volume transported by train, as well as have the same train execute more trip cycles throughout the year.
The main initiatives to achieve these drivers are:

1.) **Investments in Rolling Stock:** This includes the purchase and refurbishing of railcars and locomotives. The company is acquiring new locomotives, which are more efficient and faster, and reduce fuel consumption (-20%), maintenance expenditures and transit time. The new railcars will also help reduce fuel expenses (-5%) and maintenance, and allow greater transported volume (+10 ton/railcar).
    Investments in Railways: Includes the construction and expansion of rail yards, duplication of certain railways, improved access to ports and investments to increase the capacity of current terminals (Rondonópolis). Thus, it is possible to decrease the number of stops that the train makes, which decreases fuel consumption, increases average speed, reduces loading and unloading time and increases the number of railcars per train, due to larger rail yards. The company expects to increase to 120 the number of railcars per train, compared with the current 80 railcars (50% increase in the volume transported per train). Investments in railways will also serve to increase safety and reduce accidents which, when they occur, hinder the use of the railroad and damage the surrounding areas.
2.) **Operational Improvements and Return Load:** There are opportunities to profit without significant investments. Amongst these are the control of load loss, optimization of the loading and unloading process, and the utilization of the returning train to carry fertilizer. Currently, the train unloads the goods at the port of Santos and returns empty, however there is demand to transport fertilizer from Santos to Rondonópolis. The company plans on operating this load by 2018.

The company has been improving its operations since the end of last year and it is possible to notice improvements in the 1Q16 results. Compared with the same time period last year, the Malha Norte operations presented an 8% decrease in fuel consumption, an increase of 35% in number of loaded railcars per day and a reduction of 5% in the number of days a train takes to complete a full cycle (Rondonópolis-Santos-Rondonópolis).

Rumo has a relevant operational challenge ahead, but has been obtaining encouraging results. We believe that because it is a company with a relatively simple business model, with a qualified and experienced team[14], Rumo will be able to achieve high marginal returns, thus creating shareholder value.

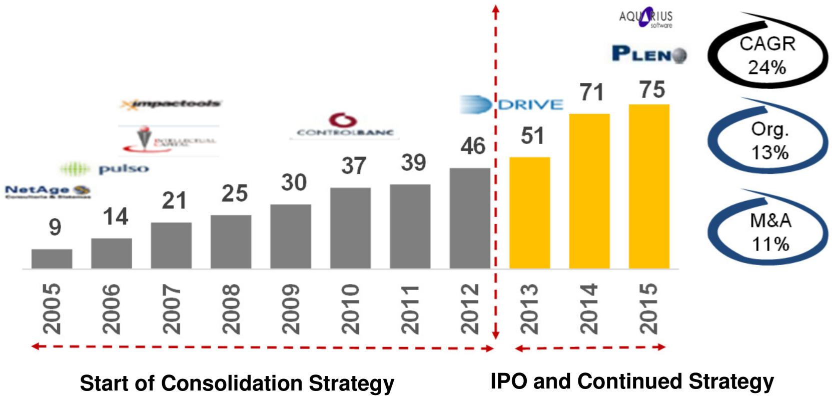
Senior Solution:

We have always liked software company's business models and closely follow the Brazilian sector. As a result, in early 2015, we ended up studying and investing in Senior Solution, the largest software developer for financial institutions in Brazil. Currently, HIX is the company's largest individual shareholder, owning 14.3% of its capital, and is represented on the Board of Directors by one of our partners.

Senior Solution was founded in 1996, and IPO'd on the Bovespa Mais in 2013, and throughout its history it has shown strong organic growth, as well as growth through acquisitions (eight companies acquired) as shown in the graph below. Senior Solution has transparent and

[14] Current CEO Julio Fontana spearheaded the MRS (another railway operator) turnaround and achieved exceptional results (i) 20% reduction in fuel consumption, (ii) 29% increase in average speed, (iii) 50% growth in loaded volume and (iv) significant increase in EBITDA

admirable corporate governance levels, the founders continue leading the business (CEO and COO), and have a first-rate team. It is one of the leaders in the software market focused exclusively in the Brazilian financial sector, providing solutions for Bank's Treasury Area, Asset Management Industry (Assets, Pension Funds, Wealth Managers and Custodians) and Consortium Management.



The company has a large customer base, with long-term relationships, and is composed by the main financial institutions in Brazil, as exemplified below.

Source: Senior Solution

In addition to software quality, these clients have sought increasingly robust suppliers that can ensure sustainability and product updates over time. Having said this, Senior emerges as one of the few software solution providers for financial institutions with corporate governance and robustness, to ensure security and continuity as well as product quality and service for its customers. Most of the company's revenues are recurring, and are associated with contacts that are adjusted by inflation.

An important feature in Senior's business segment is that their software is embedded in some of their customer's most important activities, and is integrated with numerous other systems, which makes the exchange of software provider expensive for the customer. This means that Senior has rarely lost a client, which guarantees the company's Legacy Moat. Moreover, since most systems have already been developed, Senior's R&D expenditures have already been executed and are duly updated. The cost of a new client is extremely low, which presents a very high ROIC for each new customer gained. This is the main reason why Senior's organic growth generates so much value and can be considered a Reinvestment Moat. Over the years Senior has managed to grow and gain market share in all financial software business segments, given the quality of their products and service.

Besides the opportunity to continue growing organically, Senior belongs to a highly fragmented market composed of hundreds of companies, which for the most part are small, with little scalability, and therefore have small profits and are incapable of maintaining their software updated, and usually over time end up shutting down. This reality favors Senior's acquisition process, and the company's has already completed eight purchases over its history. These acquisitions add up to R$37 million, and currently it has over R$50 million in cash to continue this process.

Company	EV (R$ mi)	EV/Net Operating Revenue
Netage	n/a	n/a
Pulso	0	0,5 x
Impactools	3	0,5 x
Intelectual	7	1,5 x
Controlpart	4	0,8 x
Drive	15	1,0 x
Aquarius	7	1,0 x
Pleno	2	0,9 x
Total	**37**	**1,0 x**

Source: Senior Solution

Historically, acquisitions generated a lot of value for Seniors shareholders, resulting in high rates of return. In addition to bringing new customers, new solutions and qualified professionals, Senior managed to present excellent ROIC on its' acquisitions. The main reason for this is Senior manages to pay the sellers an attractive price, however under Seniors control these same companies benefit from operational and fiscal synergies, making the price paid cheap from Seniors point of view. Furthermore, cross-selling these products creates additional value.

Hypothetical Acquisition	R$ mi
Revenues	30
EV/ Revenue	1,0 x
EV	30
Equity	30
PL	5,0
EBITDA	4,5
EV/EBITDA (Before Synergies & Goodwill)	**6,7 x**
Synergy (~20% G&A)	1
Goodwill	25
Present Value of Goodwill Tax Benefit	6
EV/EBITDA (Post Goodwill and Synergies)	**4,3 x**

Source: HIX Capital

We expect these acquisition processes to intensify over the coming years, further consolidating Senior's competitive position, the company's leadership and causing their Reinvestment Moat to increase continuously.

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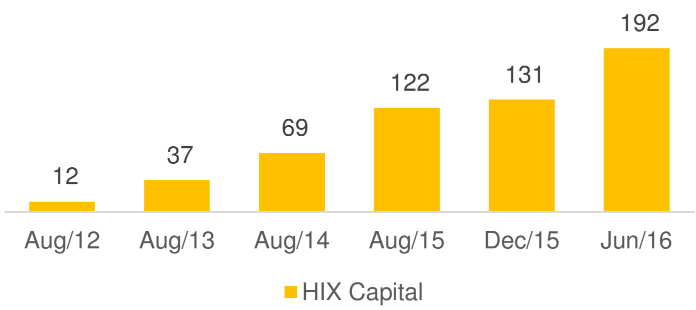
HIX CAPITAL UPDATE:

Despite last semester's challenging scenario, HIX Capital has managed to achieve significant AuM growth. We ended the semester with R$ 190 million under management, invested in shares through our open-end funds and co-investment vehicles.

HIX Capital: AuM Evolution (R$ million)



Our strategy to focus our fundraising efforts on long-term relationships with partners who have an aligned investment perception has proved successful, and the stability of our investor base allows us to invest with confidence and long term view.

In April 2016 a new fund, launched in November 2015, which mirrors the HIX Capital FIA but is duly adjusted for Brazilian Institutional investors, completed 6 months and began being reported and disclosed. The fund's AuM and number of investors has grown consistently, and we are excited about its potential.

In addition to this, during the second semester of 2016 we will be launching an offshore fund, which will mirror the HIX Capital FIA fund and accommodate international investors.

From a staffing point of view, we have grown to a team of ten which obviously increases our research and operational capacity and is working well and integrated. In addition we have implemented a new software that allows us to improve internal controls, management information and compliance. This process has gone smoothly and we are pleased with the results.

We remain excited about HIX's growth prospects, and are confident in the team's ability to keep steadily growing and finding good investment opportunities for our partners and investors.

We appreciate your trust,

HIX Capital Team