HIX Capital

"If everyone is thinking alike, then somebody isn´t thinking."
(General S. Patton)

Dear Investors,

HIX Capital is an independent asset management firm focused on investing in Brazilian equities. We manage local (BRL) and offshore (USD) funds whose goal is maximizing return on invested capital through a concentrated portfolio of high quality companies. In other words, we look to invest in companies that: (a) have simple business models; (b) are well managed; and (c) offer compelling potential returns. We strive to achieve the deepest possible knowledge about the companies and sectors we invest in.

During the 1st half of 2017 HIX Equities 1 SP (USD denominated offshore fund) gained 10.8%, whilst the Ibovespa index gained 2.5%. Whilst the offshore fund will only complete its first full year of life in September 2017, the local fund of which is a mirror (HIX Capital FIA) has accrued gains of 99.7% compared to a 10.2% rise of the Ibovespa index back to the funds launch in September 2012. Please note that the performance numbers included in this letter from this point on refer to the local fund (in BRL).

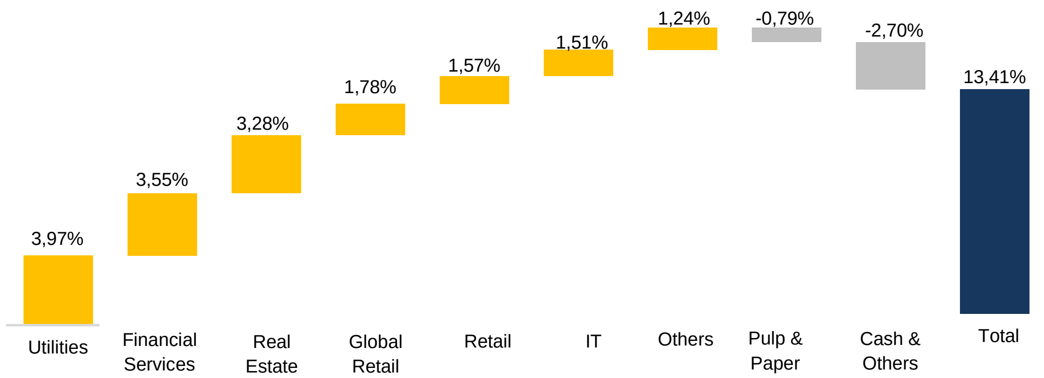
Consolidated Results:

Year	HIX FIA	Ibovespa		HIX EQUITIES 1*	Ibovespa (USD)
2012	13.09%	6.82%			
2013	8.78%	-15.50%			
2014	3.86%	-2.91%			
2015	8.28%	-13.31%			
2016	27.29%	38.94%		-1.53%	5.68%
June 2017	13.41%	4.44%		10.78%	2.54%
Since Inception	99.72%	10.23%		9.08%	8.36%

* HIX Equities 1 SP Inception Date: September 15, 2016. Performance in USD

Over the past semester, the main contributors to the fund's performance were the investments in Wiz Soluções, Energisa and Senior Solution, whilst Klabin and Kraft were the portfolio's main detractors. Please find below the fund's performance attribution by sector.

Performance Attribution 1st Half 2017: HIX Capital FIA



Source: HIX Capital

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MARKET & PORTFOLIO UPDATE:

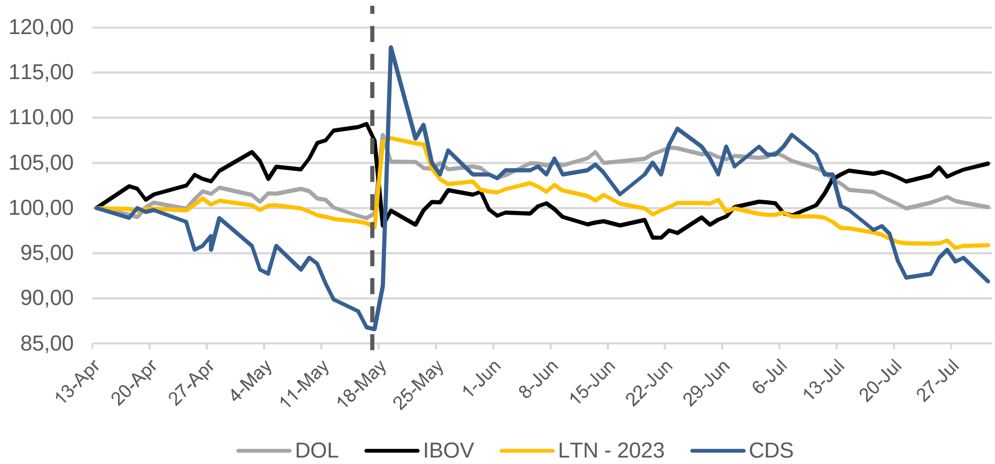
2017 kicked-off in a very positive mood regarding Brazil's economic outlook, but ended in political turmoil due to the plea bargain evidence given by Joesley Batista, a prominent Brazilian businessman who controls JBS, the world's largest meat processor. The evidence given by Joesley directly implicated President Michel Temer and brought huge volatility to the markets. Prior to this event the president had surprised many by proving himself to be a reformer, not what his political party (the PMDB) is generally known for. He was sworn into office at the beginning of 2016 and was starting to generate extremely positive expectations for Brazil's future. Amongst the reforms he set in motion, it is worth highlighting:

- PEC (Proposed Constitutional Amendment) that caps governmental expenditure (✓)
- Labor Reform (✓)
- Pension Reform (?)
- Cost Reduction in specific sectors such as FIES (Student Financing) and BNDES (✓)
- *Economic Dream Team* at the Ministry of Finance and Brazilian Central Bank (✓)
- Market Executives in state-owned companies[1] (✓)

However, on May 17th the whole country and more specifically the financial markets were caught by surprise when a private conversation between the President Temer and Mr. Batista, (whose company J&F Holding, experienced astronomical growth during the PT era) was leaked to the press. Seeking protection for himself and his company, Joesley reached a plea agreement with the Federal Prosecutor's Office where he denounced Temer and other key politicians. The entire financial market panicked and doubt overshadowed the government's capacity to continue with its reform agenda. From one day to the next Temer's focus turned from leaving a positive legacy of reforms and economic growth, to a search for justification and support to keep hold of the Presidency as well as an eventual defense against corruption charges. The sequence of events in congress leads us to believe that there is much lower probability of seeing key reforms any time soon. Although some reforms such as the Labor Reform have been approved, and the economic team has continued its work in the Central Bank and Finance Ministry, other agendas such as privatizations and the critical pension reform seem to have been postponed. During this period, we witnessed a strong sell-off of risky assets by local investors, whilst foreigners (perhaps more pragmatically) took advantage of this moment of weakness to increase their long positions.

Fast forward a couple of months and the markets main stocks have returned to previous (and in some cases even superior) levels to those reached prior to the scandal. Sustained by surprisingly low inflation in recent months, the Copom (Monetary Policy Committee) maintained the pace of interest rate cuts, bringing the benchmark SELIC back to single digit levels (9.25%). The following chart shows that the fixed interest rate (as measured by the LTN) is already below May 17th levels. CDS levels (seen in blue) show that foreign investors price Brazilian sovereign risk at levels similar to those prior to the scandal. Lastly the dollar (in grey), in turn supported by a positive trade balance and strong FDI flows and capital accounts, has resumed previous levels and seems to have found a balance.

[1] Pedro Parente at Petrobras and Wilson Ferreira at Eletrobrás.



Some relevant trends that impact corporate profitability have remained valid in today's environment:

(i) Decreasing inflation levels will demand lower interest rates, which in-turn reduces debt servicing expenses and encourages a pick-up in investment;
(ii) The country continues to have a huge infrastructure deficit, and in this uncertain environment these sectors will continue to offer high rates of return to entrepreneurs;
(iii) The agribusiness sector will continue to be a strong growth engine, while the world keeps growing;
(iv) Lower FX rates will continue to help Brazilian companies to export profitably;
(v) The complex business environment continues to create very profitable oligopolies;
(vi) Several companies have made relevant adjustments to their structures and are achieving interesting operational profitability, even in the current economic scenario;

Our expectation is that growth will remain tepid in the short term, but that the ongoing cyclical recovery should lead to a small GDP increase in 2018. During this time, we expect inflation to remain stable enough to allow a continued drop in interest rates. Additionally, increased volatility has created distortions in pricing which we look to take advantage of. In short, we believe that with appropriate due diligence, there are compelling opportunities out there.

Earnings Performance (HIX FIA Holding Simulation)

Indicators	2014A	2015A	2016A	2017E
Net Revenue Growth %	17.8%	12.4%	8.9%	8.5%
Net Margin Growth %	17.8%	23.7%	25.1%	20.5%
P/E Fwd.	**11.7X**	**13.4X**	**13.6X**	**12.2X**

Source: HIX Capital

We reiterate that the main performance driver for our portfolio over the next couple of years will be profit growth from portfolio companies. Following good growth in 2016, we are confident that 2017 will not be much different. The portfolio's combined P/E multiple is 12.2x, similar to the Ibovespa multiple, albeit in our opinion with a more attractive profit growth versus execution risk profile. We are confident in the results over the coming years.

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INVESTMENT OPPORTUNITIES*:*

Amongst surfers there is a reasonable consensus that Pipeline, located on the north shore of Oahu, Hawaii is if not the best, one of the 5 best waves in the world. Images like the one below, of the powerful waves in Banzai, fill the dreams of surfers; professionals and amateurs alike:

The interesting thing is that reality is quite different from what is expected, as we see in the photo below of a typical day at the location. Despite the exceptional experience that a lucky few had, most of the surfers had a quite different experience:

Although the waves are unquestionably wonderful, most surfers break into bickering, arguing over their place in line to surf the waves, stripping the experience of all its fun.

Mentawai, in Indonesia, has a much less glamourous status amongst surfers. However, we believe that most surfers wouldn't think twice about switching the situation above for that in the next picture . They wouldn't do it because the wave is better or the access easier, nor would they do it because local infrastructure is better and cheaper. They would do it because despite these difficult features, the opportunity to have their own space makes the experience more rewarding. Sometimes the important thing is to explore lesser known destinations to find the best waves.

You would be forgiven for wondering why we are talking about surfing in an investment letter. The truth is that today's investment universe holds similarities to the Pipeline example above. There are several wonderful companies traded on the Brazilian stock exchange with undeniable qualities, names such as Raia Drogasil, Ultrapar, B3 (the result of the recent merger of BM&F Bovespa and CETIP), Multiplan, Fleury, Linx and Localiza, amongst others. What they all have in common are the qualities we dream of having in a company we invest in: (i) dominant market positioning and market share, (ii) high return on invested capital, (iii) a clear growth trajectory. Unfortunately, they all share another common characteristic, in this case an undesirable one: the large volume of domestic and foreign capital disputing these few names. This large concentration of capital in only a handful of names ends up pushing valuations to high levels, making the investment unattractive for us.

We are always focused on maximizing investor returns with minimum possible downside risk. As such, whilst we seek to buy high quality companies, we are also seeking attractive prices that allow an interesting rate of return over the long term. To achieve this, we must dig deeper and put in more effort. Like the surfer who seeks the distant islands of Mentawaii, we look for companies that aren't well known by the market or are undergoing a major internal transformation in relation to their strategy and management. For various reasons, these companies tend to be unfollowed or unloved when we start to build our positions, however it is clear to us that these positions, that we like to call "under the radar", are often the ones that have allowed us to deliver uncorrelated returns (the famed "Alpha").

Looking back over our history in recent years, a lot of our performance attribution has come from such cases. Some examples are:

- **Equatorial** (2013 to 2016): 19.9% fund level gain – When we started our investment in the company, most market analysts still doubted the management team's ability to execute CELPA's turnaround. In 2014, with the turnaround already underway, the risk of rationalization became the thesis main risk. From here on the company gained many new fans and became a consensus play. We arrived at the investment early due to our willingness to study in detail the company's culture and executives, as well as to deeply understand the Brazilian regulatory framework, at a time when most of our peers disliked the sector.
- **Rumo** (2016); 8.2% fund level gain – Rumo, following its merger with ALL, experienced near bankruptcy and chapter 11, despite being a strategic asset in the grain railroad transport system. We studied the asset very carefully, as well as the new management team, realizing the resilience of its revenue model and the opportunity to improve margins left by the previous management team. Once we gained confidence that the controlling shareholder would execute a capital increase to resolve the company's financial situation, we acquired shares that would give us the preemptive right to follow said capital increase, gaining very attractive returns from the investment.
- **Tempo Assist** (2014 to 2015): 6.6% fund level gain – In 2014, the market had difficulty in understanding the full potential of the Tempo Assistance unit, since the "conglomerate" structure meant that the results of bad business units contaminated good ones. After careful diligence and an understanding of the company's non-strategic asset divestment strategy and focus on core business, we gained the confidence to invest at a time where visibility was still dubious.
- **Portobello** (2012 to 2013): 6.5% fund level gain – In the initial phase of our investment, the market understood the ceramics market to be problematic. We took a deep dive to understand Portobello's brand value, product creation problem, relationship with architects, and its powerful distribution channel via franchises.
- **Wiz Soluções** (2015 - present): 6.4% fund level gain – We began our investment in Wiz (previously known as Par Corretora) at the IPO, starting with a very small position and gradually increasing over time. What attracted our attention was the combination of the following factors: (i) the size of growth opportunities due to the relevance of Caixa Econômica Federal (CEF) as a bank together with very low insurance penetration. (ii) high predictability of results and (iii) extremely competent team and unique technological framework. All these pillars proved solid and even better than initially expected, which has surprised us and the market consistently over the last years, and driven a marked increase in the stock price. Additionally, after extensive work in talking to various industry experts, we realized that the likelihood of an eventual renewal of the exclusivity contract with CEF is greater than what the market has priced.

INVESTMENT THESIS UPDATE:

Taking advantage of our letter's theme, we decided to explain in detail two thesis which we consider *under the radar*. Eneva and Jereissati are two companies that were recently added to our portfolio, and for different reasons, we view as exceptional opportunities.

ENEVA

In recent years, we have spent a lot of time studying the electrical sector. In 2012 the sector suffered due to legislative changes (MP 579 – a Federal Measure to limit tariff adjustments) and was impacted again in 2014-15 by a water shortage brought on by lack of rain, causing a near panic and further investor aversion due to the sectors reliance on Hydropower. This made it possible to invest in good companies at attractive prices in a sector characterized by its resilience and cash flow predictability. Therefore, we took advantage of this opportunity to invest in Equatorial, Alupar, Energisa and recently Eneva.

Our due diligence began when Eneva (formerly MPX) finalized its chapter 11 process in September 2016. At first, thinking about investing in Eneva caused some discomfort, since we were talking about an asset which had a chapter 11 "poor quality" seal and had been previously been controlled by Eike Batista. On the other hand, these were exactly the reasons that created market aversion in relation to analyzing the company, and consequently created the asymmetric return opportunity that attracted our interest.

Historical Context:

As mentioned beforehand, Eneva is the successor to MPX, the EBX group's thermal power generation arm, which was sold to E.ON[2] in 2013. At the time of the E.ON transaction, the company had almost 2.5 GW of power installed in 3 coal-powered thermal plants and 3 gas-powered thermal plants, which weren't generating cash and were experiencing operational problems. The company entered Chapter 11 because it had R$ 2.4 billion of debt at the holding company level which it became unable to service. However, the debt service problem was largely due to a one-time factor: delays in construction had forced the company to buy energy on the spot market at very high prices in order to honor electricity supply contracts they had previously signed.

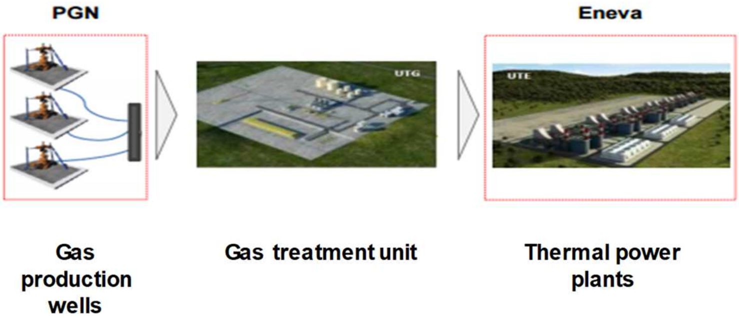
During chapter 11, the company restructured its debt, sold stakes in coal-powered assets and built a fourth gas-powered plant, Parnaíba II. The company exited chapter 11 in July 2016 with a much-improved debt profile at the holding company level, and 1.9 GW of installed operational capacity, with 4 gas thermal plants of the Parnaíba complex (located in the interior of the state of Maranhão) representing 1.4 GW.

The Parnaíba Complex is supplied by gas extracted from the Parnaíba basin by PGN (formerly OGX Maranhão, another member of the EBX group), a company controlled by Cambuhy[3]. Eneva and PGN had a symbiotic relationship, since PGN was Eneva's sole gas supplier, which in turn was PGN's sole customer. The gas exploration business in the Parnaíba basin was conceived to be integrated with the power generation business. However, since the companies no longer had a common controller, they were individually managed to maximize their results and this created an immense conflict of interest, as well as operational inefficiencies and capital allocation. To eliminate

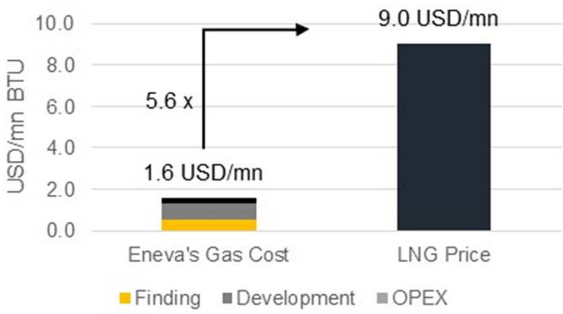
[2] This participation was subsequently contributed during a spin-off to Uniper.
[3] Well-known Brazilian Private Equity Fund controlled by a prominent local family (the largest shareholders of Itau-Unibanco)

these problems, in September 2016 Eneva incorporated PGN. Thus, Cambuhy became one of the largest shareholders in the combined company, and together with BTG Pactual began a new phase for Eneva.

Business Model
With PGN's incorporation by Eneva, the company became the **only operational gas-to-wire platform in Brazil,** where gas molecules leave the producing wells and are directly sent to power generation. This business model combines the predictability of power generation business' results, characterized by long-term inflation-linked contracts, and high returns from the E&P business[4].



In addition to the financial equation making sense, Eneva's gas-to-wire platform has the competitive advantage of being able to deliver a large amount of energy (12,264 GWh per year) at extremely competitive prices. The cost of Eneva's gas production is approximately 20% of the cost of importing LNG[5], the main fuel for gas-powered thermal plants in Brazil.



Eneva is currently is the largest privately held onshore natural gas player in Brazil, with a capacity to produce 8.4 million m²/Day.

While the gas-to-wire model is extremely efficient and attractive to both investors and energy consumers alike, it is very difficult to replicate. In addition to being costly and requiring a certain scale, creating a gas-to-wire platform takes a lot of time and has several risks. It is worth remembering that two companies almost went bankrupt trying put the Parnaíba Complex into operation. On the other hand, once operational it is very profitable and quite a safe model. In Eneva's case, the 18.5 billion cubic meters of natural gas in the company's reserves, as well as the more than 100 wells the company has drilled in recent years, mitigates the business's exploration

[4] Exploration and Production of Oil and Natural Gas.
[5] Liquefied Natural Gas

risk, since current reserves are compatible with the gas required until the end of the power generating contracts.

Investment Thesis

Our investment thesis is comprised of 4 main pillars:

- **Non-replicable asset platform, 100% cash-generating operations**
- **Opportunities for operational improvements and capital structure:**
    - Capturing G&A and Capex synergies due to PGN's incorporation;
    - Financial efficiency;
    - Strong deleveraging and reduction of debt service costs.
- **Growth opportunities with high returns**
    - Project pipeline with high returns (> 20% real returns) with potential NPV of R$1.9 billion;
    - Strong growth of renewable resources in the energy matrix coupled with the system's limited energy storage capacity make the thermal plants essential to guarantee the country's energy security. **Eneva is extremely well positioned to capture the thermal plant growth within the Brazilian energy mix.**
- **Reference shareholders influencing the company's strategic decisions, combined with an experienced team**
    - Cambuhy and BTG are actively involved in the company's strategic decisions and aligned with the strategy of perpetuating and growing the company;
    - Eneva has the only team in Brazil with technical and regulatory expertise to operate the gas-to-wire model, with a proven ability to deliver results;
    - The company counts on a team of geologists with more than 30 years of experience in Oil and Gas exploration and a deep knowledge of the Parnaíba basin.

In conclusion, we believe we are buying a single asset with predictable revenue and various value-generating opportunities. All this at an extremely attractive valuation.

JEREISSATI PARTICIPAÇÕES

We have been following the shopping mall sector for a long time, and consequently, the companies listed on B3[6]. Inside the sector's universe, Iguatemi has always been one of our favorites, due to the location of their assets, capacity to manage tenant mix and the historical brand and value generation. Given the company's quality, it is no surprise that it has always traded at high and premium multiples when compared to the rest of the sector.

That said, until the recently we hadn't identified a safety margin for a relevant direct investment in the company. Last year, during our search for "under the radar" investments, we came across Iguatemi's parent company's stock: Jereissati Participações (MLFT4). What we saw was the opportunity to indirectly purchase a stake in Iguatemi Empresa de Shopping Center S.A. (IGTA3) with a 70% discount at the time (a 50% discount as of this letter's publication).

[6] BMF Bovespa's new name.

History and Restructuring

Jereissati Participações in a non-operational holding controlled by the Jereissati family. Currently its main asset is a 50.8% share of Iguatemi Shopping Centers. The group began its activities in the 60's and became more prominent when it acquired control of La Fonte Metallurgical Company. Throughout its over 50 years of history, the group has invested in various sectors such as: (i) real estate assets (including Alfredo Mathias construction company – incorporator of the Iguatemi complex), (ii) Telephone segment through Telemar (future Oi) and (iii) contact centers through Contax, which at the time was spun-off from Telemar.

In recent years, however, after a strategic decision taken by the controlling family, the group decided to focus its real estate operations through Iguatemi. Since then, Jereissati has undergone a process of corporate and portfolio restructuring, having fully divested its stake in Oi during September 2015 and significantly reduced its stake in Contax[7]. .

Opportunity

Today the implied discount[8] when buying Iguatemi through Jereissati is over 50%. This represents more than double the average discount of other holding companies listed on the stock exchange, both in Brazil and Worldwide. In our view, there are some factors responsible for this difference: (i) lack of market knowledge about the company's current business structure, (ii) concentration of the shareholder base – for a long time the shares were concentrated in the hands of the controlling family and two foundations, and (iii) lack of coverage and communication with capital markets.

Our investment thesis is simple and supported by three pillars:

- **Reduction of the holding discount due to the following:**
    - Increased Liquidity – The two foundations have recently been selling their shares, which has helped diversify the shareholder base and provide additional liquidity to the stock;
    - Simplification of the business model – the company always went unnoticed, as it was considered a holding of not only Iguatemi, but also of other businesses related to the Telecom sector (Oi and Contax);
    - Better communication with the market – the company now understands the benefits of a better relationship with the market; we already see small changes in reporting and communication.

- **Iguatemi – High asset quality in an attractive sector:**
    - Portfolio of the highest quality – Iguatemi is one of the leading companies in the Brazilian shopping center segment and has a well-located asset portfolio with an exceptional mix of stores, which guarantees its revenue resilience.
    - Mix management – The Company is without a doubt one of the operators that best works its project mix. With this it creates a virtuous cycle, which attracts consumer

[7] Jereissati through its subsidiary Jereissati Telecom, left the controlling block of Contax in March 2016 and currently holds 8% of the company.
[8] This discount refers to the value of the interest in Iguatemi held by Jereissati, minus net debt and future holding expenses

desired stores, which consequently increases sales. The result of this process generates an increase in project revenues.

- Shareholder value creation – Iguatemi was able to create substantial value for its shareholders over time. They did this by improving their own assets such as Iguatemi SP, developing successful projects like JK Iguatemi and last but not least, keeping their costs under control.

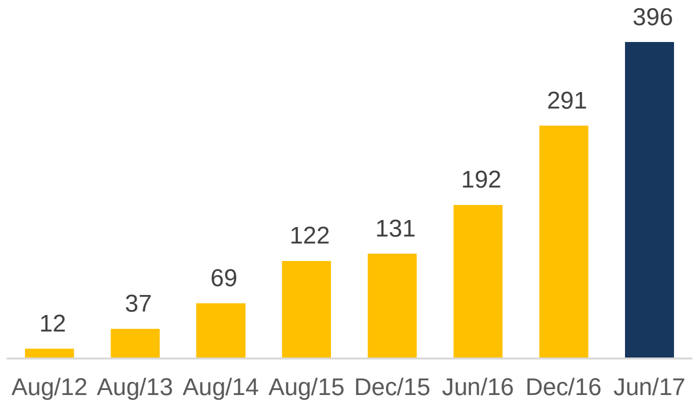
- **Increase in Iguatemi dividends and cash generation in the holding company:**

  - Much of Iguatemi's debt is indexed to the CDI, so the current interest rate drop leads to a substantial increase in the company's profitability;
  - Iguatemi is a high cash-generating company, and has no relevant investment plan for the short/mid-term. Therefore, much of the growth in profit and cash generation should lead to a significant increase in dividends. This increase has a direct impact on Jereissati's yield/carry.

In conclusion, even considering the strong stock performance since our acquisition, we still see an extremely attractive IRR on the investment.

HIX COMPANY UPDATE:

HIX Capital: AUM Evolution (R$ million)



The first half of 2017 saw growth in our local (BRL) open-ended vehicles, reaching R$400 million of AUM for the first time in July 2017. Currently 70% of HIX's AUM are in our portfolio funds (HIX Capital FIA, HIX Institucional (vehicle for local Pension funds) and the HIX Offshore Fund), with the balance in co-investment vehicles. Against the backdrop of a troubled political scenario, we were pleased to see very little turnover or redemptions from our investor base.

From a team standpoint, we are pleased to announce that two members of the investment team were invited to become partners through HIX's partnership program. Furthermore, we also added another member to our investment team. Currently HIX's team has 10 members, of which 5 are partners, with 6 members dedicated exclusively to investment analysis.

In operational terms, we continue investing in the continuous improvement of all HIX's internal and external processes, with investments in people and systems.

We are excited about HIX's growth prospects and are committed to our mission of delivering attractive results to our investors.

We appreciate your trust,

HIX Capital Team