Tarpon GT Public Equities: quarterly update

In 3Q17, we had a strong return of 23.7%, while the Ibovespa returned 18.1%. Since the relaunch of the strategy, we delivered a return of 56.0% in a market that appreciated 22.3%. Although we are satisfied with the performance, we know that short-term results can be very volatile, especially in an emerging country such as Brazil.

Overall, in markets with a strong upward trend such as the current, our strategy tends to appreciate less than the market. This is due to the characteristics of the companies we usually invest in, most often with more conservative capital structures and predominantly organic growth. However, due to the release of consistent results of most of our companies this 3Q17, 6 out of our 9 investments outperformed the market.

As a reminder, the initial construction of our portfolio, which was presented in our 4Q16 Tarpon letter, created a balanced portfolio between (i) companies with low exposure to economic activity and exposure to real interest rates (Sanepar/Alupar/Sonae Sierra[1]); and (ii) companies with greater exposure to economic activity, leaders in their respective markets, with resilient business models and, in general, market share winners (Tegma/Sonae Sierra/Smiles/ Portobello/CVC). We believe that this combination of assets produces a balanced portfolio to navigate the current economic and political environment (the end of the largest economic recession in the country's history, political instability and the approach of general elections in 2018).

Recent results of our investments continue to improve in terms of both growth and profitability, giving us more confidence that our portfolio is prepared for the still unstable and challenging scenario. When we look at the 2Q17 results of the companies we invest in weighted by their share in the portfolio, we see a 9% increase in net revenue and 20% in net profit compared to the previous year. The improvements observed in recent quarters seem healthy and sustainable, indicating that the effects of operating leverage are quite relevant.

However, when we separate the portfolio between the two great groups mentioned above, we see that there is a significant disparity in recent results. On the one hand, this disparity is expected due the different characteristics and nature of the companies' activities, on the other hand, the intensity of the improvement in results of the companies more exposed to economic activity has surprised both us and the market in a positive way, as we will detail below.

The companies with less exposure to economic activity and higher real interest exposure had a 6% growth in revenue, with the main growth factor being inflation-adjusted price increases in their rates. Profit growth, in turn, was 4%, slightly below revenue growth, but broadly in line. Meanwhile, our investments exposed to economic activity had a significant growth of 14% in revenues, and a much more significant growth of 92% in net income. This growth is due, among other factors, to (i) excellent work in search for efficiency, which has been increasing the operational leverage; (ii) revenue improvement due to market share gains and turnover recovery in their respective markets; and (iii) the low results base due to the intense recession of the last 3 years.

Unsurprisingly, the stock performance between the two groups of assets was quite different. If we consider the companies with less exposure to economic activity, the average valuation was 10% in this quarter, while the average valuation of companies with greater exposure was 30%. It is important to note that this performance below the market was also reflected in the sectors of the companies with the lowest economic exposure as a whole. The transmission sector had a 3.9% increase and the sanitation sector 5.1%. We credit part of this performance to the movement of investors migrating from low beta to higher beta sectors.

However, in our view, in a long-term perspective, investments with real interest exposure will continue to be an important component of our portfolio's value generation. Despite the weak performance in recent periods, our investments in the industry continue to implement their business plans and create value in line with our expectations. We believe that at some point the market will again allocate the appropriate value to these businesses and, until that happens, we will patiently wait while receiving good dividends.

[1] We consider Sonae Sierra's investment to be a mix between real interest rates and economic activity. The company has a set of real assets (347 thousand m² of proprietary GLA - gross leasable area) and part of its revenues are affected by retail growth, mainly in its variable component and its renewals.

In relation to our investments with greater exposure to economic activity, we understand that even after the surprising results of our main positions, there is still much value to be captured. We have been following some background indicators and we will go over some of them to better illustrate our expectations.

In Tegma, for example, the volume data of the new car sales sector continues to show a market in recovery, with healthy sales growth (light vehicle sales increased by 14.7% in 3Q17) and with a potential increase in the average distance of the cars transported, which further improves the company's revenue. If we consider domestic sales volumes of 3.7 million cars in 2012/2013, the current volume of 2.2 million in the last 12 months still has a long way to go.

In the case of CVC, the company has already released the first operating data, which has shown a healthy reserves growth of 15.7% and same-store-sales of 10.5% in 3Q17 vs. the same period of the previous year. In our view, the company continues to execute its growth plan in a solid manner and with significant market share gains.

As for Sonae Sierra, the company's main business continues to report sales growth in line with the results of the first 6 months of the year. Year to date, the flow of people in their malls grew a healthy 8% compared to the same period of 2016. Our expectation is that the company will continue to deliver consistent and above-market figures in the coming quarters.

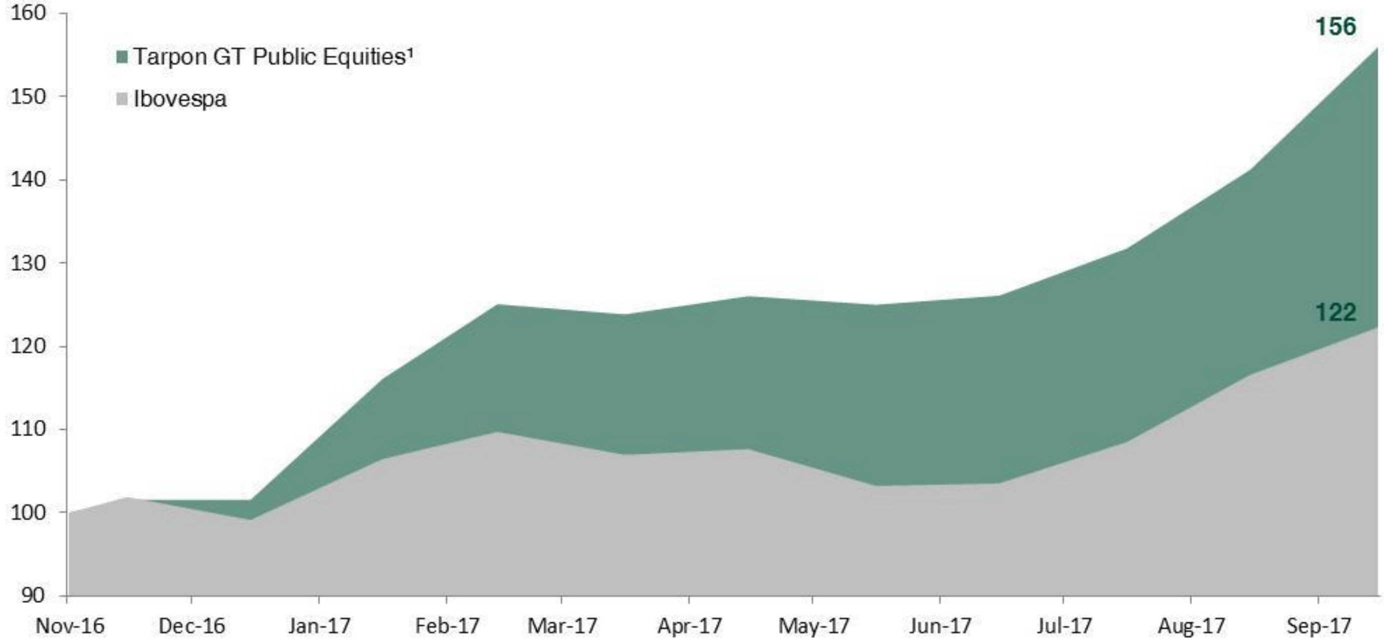
With regard to new investments, we continue to seek the generation of new opportunities that may contribute to the composition of our portfolio and that present positive dynamics of value generation, considering the different scenarios that may arise. Throughout the trimester, we started two new investments and divested from a thesis that had become more mature, presenting a less attractive risk/ return ratio.

Finally, one year after the relaunch of our public equities strategy, we decided to open the fund for new investors. Do not hesitate to contact us if you have any questions or would like to get more information about how to invest with us.

Best regards,

Tarpon GT Public Equities
www.tarpon.com.br

Performance Since Relaunch



(1) Performance is net of pro forma fees. The returns were calculated using the gross returns of the strategy, discounted by the average fees of the Tarpon GT Public Equities Fund (management fee of 1.25% per year and performance fee of 20% of the excess returns above the Ibovespa Index).