

Tarpon GT Public Equities: annual update

We ended the 2018 with a net return of 25.74% compared to the Ibovespa index of 15.03%. Since the relaunch of the strategy, the fund has yielded a 101.73% return compared to 44.65% of the Ibovespa.

We were expecting a turbulent market in 2018 due to a highly undefined electoral scenario. An example of this was the number of viable presidential candidates at the beginning of the campaign period, the largest one since the beginning of Brazilian redemocratization.

However, the truckers' strike that took place in May anticipated the turmoil with an event that stopped the country for almost two weeks. From the start of the strike until the end of the elections, the market had significant oscillations in its main indicators. Perhaps the best example of the amplitude of these variations was the Brasil risk – CDS, which ranged from 142 points, at the minimum, to 312 points at the maximum.

As a result of these sudden movements, the market and the portfolio had a volatility higher than expected. We made some adjustments in the portfolio throughout the year so that the fund would benefit the most from the volatility with a vision of value and long term. Some stocks, despite posting returns below the Ibovespa index in the year, contributed positively to the performance of the fund, a reflection of the fluctuations and the adjustments we made.

The positive highlights in the year were the companies that had the combination we always look for in our investments, attractive valuation and intrinsic value generation. Both Trisul and Tegma, the biggest contributors to the 2018 performance, had excellent operating results and their stocks valued significantly more than the market. The stocks appreciated 107% and 46%, respectively.

With regards to the challenges faced, Smiles stood out due to a corporate event triggered by the controller, Gol. Between the 1st and 2nd round of the presidential election, when most of the assets were recovering from the long winter, Gol made a proposal to merge with the company without any price reference and to terminate the contract 14 years before maturity. This process is still under discussion/approval. Despite this, we remain invested with an intermediate position, knowing that there is still a lot of value in the asset.

Among the changes we made to the portfolio during the year, it is important to highlight the addition of a new company, Kepler Weber. We were shareholders of the company between 2013 and 2014, a period in which it generated an excellent return, and we have continued to monitor it closely since then. The exit of two reference shareholders of the company at the same time pressed share prices, creating an interesting entry point. Kepler is positioned in the most competitive Brazilian sector, agribusiness, and offers solutions for the segment in which the country is more outdated, logistics infrastructure. In favor of the company is our belief that the long period in which the investments were dammed has passed. Kepler uses only 30% of its capacity and, when analyzing its leading and coincident indicators alongside the sale of storage by the company, we see a volume growth of almost 30% throughout the second semester of 2018.

For 2019, we are constructive with the hypothesis that there will be a greater dispersion of the resumption of activity. If on the one hand we have, as in the case of Tegma, the automotive sector with two years of growth recovery, on the other, we still have sectors such as construction materials that are still in the final days of a long winter.

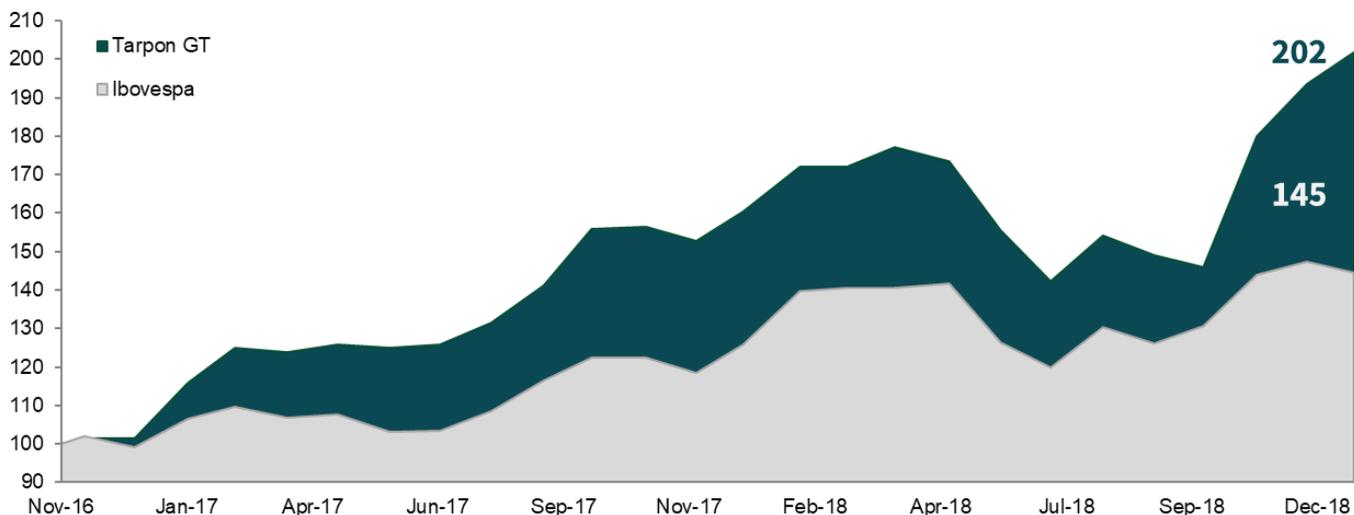
With the resumption of confidence and the equalization of public accounts through the long-awaited (and necessary) reforms, the government taking office will find a country very conducive to growth. Inflation under control, historically low interest rates, idleness in many sectors and high international reserves should give the new government a few years' worth of breath before the historic bottlenecks of our economy reappear. We hope that these bottlenecks will be addressed before problems arise so that Brazil can have a longer and more sustainable cycle of economic growth.

Best regards,

Tarpon GT Public Equities

www.tarpon.com.br

Performance desde o Relançamento



(1) Performance líquida de todas as taxas.

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