FCL*Capital*

December | 2017

1. Performance

FCL Hedge	
Second semester 2017	5,785%
Since fund inception	2,4218%
% CDI- Second semester 2017	142,7%

FCL Opportunities	
Second semester 2017 USD	23,39%
Second semester 2017 BRL	23,61%
US CPI - Past 12 months	1,7577%
S&P500- Second semester 2017	10,32%
MSCI All world Index- Second semester 2017	10,31%

2. Operational context

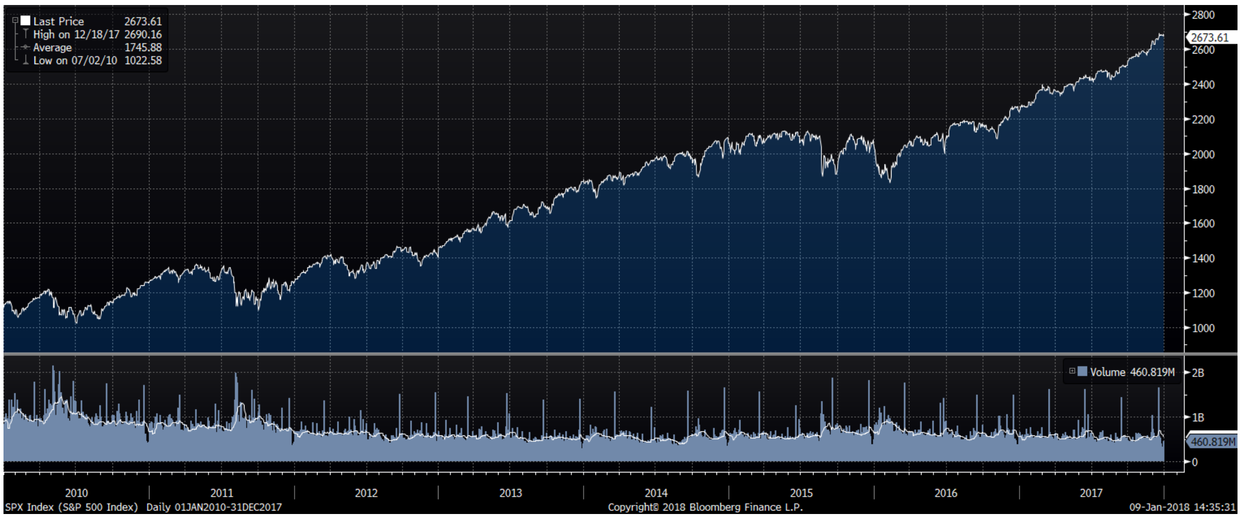
Both funds of this house performed very satisfactorily in 2017.

FCL Hedge performed almost 143% of the CDI in the second semester, while **FCL Opportunities** outperformed virtually every major country equity benchmark – showing the strength of our unique investment proposal – and returned more than 23% in US dollar terms in the second half of the year.

Overall, the year was dominated by a debate about how long the equity´s bull markets, which in fact is a bull market in almost any conceivable financial asset – will last.

Over the past decade, fueled in part by easy money policies from the major central banks, financial investors, largely because of a clear lack of any reasonable alternatives, increased their risk taking. This led to a remarkable rally in world stock indexes.

S&P Index January 1st 2010 until December 31st 2017, +139,76%



On our third quarter letter, we wrote:

Equities seem a bit overpriced, bonds still expensive, commodities could advance a bit and revert a little more to the mean, but overall, we can´t find an asset class where obvious discrepancies can be found.

Our job is made a little harder by this since as contrarians at heart we look first for the idiosyncrasies in different markets and obvious flaws in reasoning.

The interesting thing is that with the recent bull run, clearly a “consensus” seems to be forming that equities are expensive. We don´t completely disagree with this view: according to measures like the CAPE ratio, which averages profits of the past 10 years and compares them with current equity indexes, world indexes, especially American stocks, seem expensive.

There are, however, a few caveats:

a. CAPE ratios are great predictors for the long run, and don´t tell almost anything about the next year. Over the next decade American equity investors will probably fare poorly. But CAPE doesn´t give us any clues about 2018.

b. Bull markets don´t simply die of old age. The fact that this one is going for a long time is meaningless. A negative trigger is necessary.

c. Usually, there is a ‘climax'' before major equity corrections, because bears “capitulate"' and then prices clearly get out of touch with fundamentals and a bear market is necessary. We haven´t seen that because this is probably the most hated bull market in history. Countless market commentators remind us daily that the ''market is too pricey''. Usually, with this level of suspicion going on, a healthy market environment still exists. The really dangerous bull markets, when prices really get out of touch with reality, usually occur when almost no one is taking the bear argument (see Nasdaq bubble in 2000 and especially real estate bubble in 2008 when the few bears were mocked).

S&P 500 Index	2.755
US 10 year trasury Rate	2,5200%
MSCI all word index	527,29%
US Dollar index	92,58
Bloomberg commodities index	87,76

So, what could be the trigger that brings a market correction to US stock exchanges? Our best guess is that it won´t be any economic problems in China or geopolitical tensions, but instead the longawaited appearance of wage pressures in the US economy, forcing the FED to raise rates faster than many expect in 2018.This could bring a not too severe correction and maybe break this bull market which is already one of the longest in history. But we wouldn't be surprised to see the momentum going for another year.

3. Manager´s Diary

As the year progressed, this house´s funds tried to position themselves in companies we judged promising to fulfill our mission: to explore the biggest 21st century financial opportunity which is the emergence of billions of new consumers in the BRIC countries.

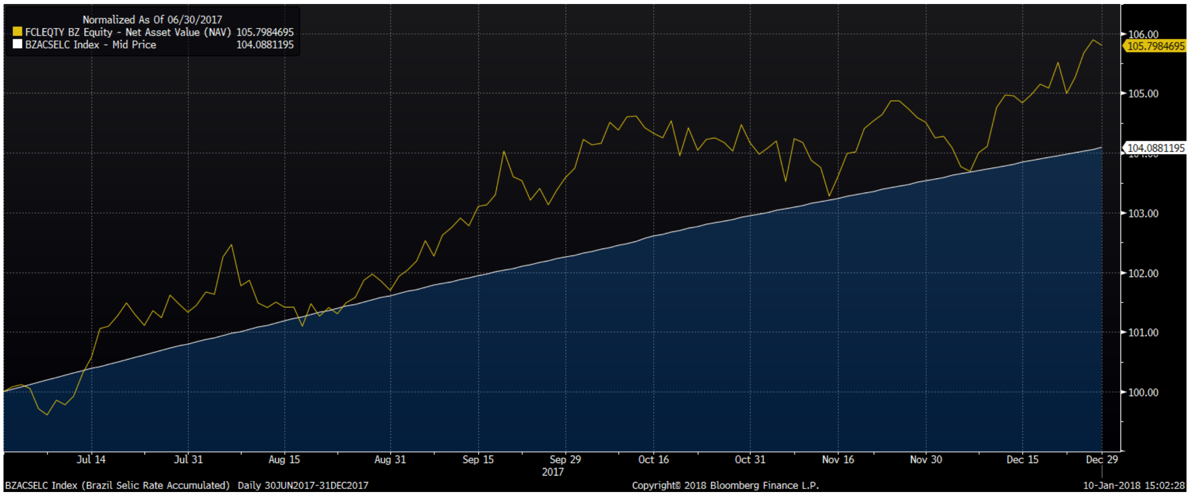
FCL Hedge Portfolio 31/12/2017

Biggest Positions	Fund´s Total Net Asset Value %	Country
Operações Compromissadas	38,69%	Brazil
NTNB´s	17,83%	Brazil
LFT 2022	8,63%	Brasil
LFT 2023	8,63%	Brasil
Comgas	5,58%	Brasil
Cash US Dollar	5,02%	USA
Taesa	3,97%	Brazil
Brasken	3,00%	Brazil
Long in CSI 300 (china)	2,85%	Brazil
Portobello	2,55%	Brazil
Ethereum ETN	2,16%	-
IWG PLC	1,04%	UK/Switzerland
ETF Cocoa (long)	0,66%	Brazil
Short in Palladium	2,00%	Brazil

FCL Opportunities Portfolio 31/12/2017

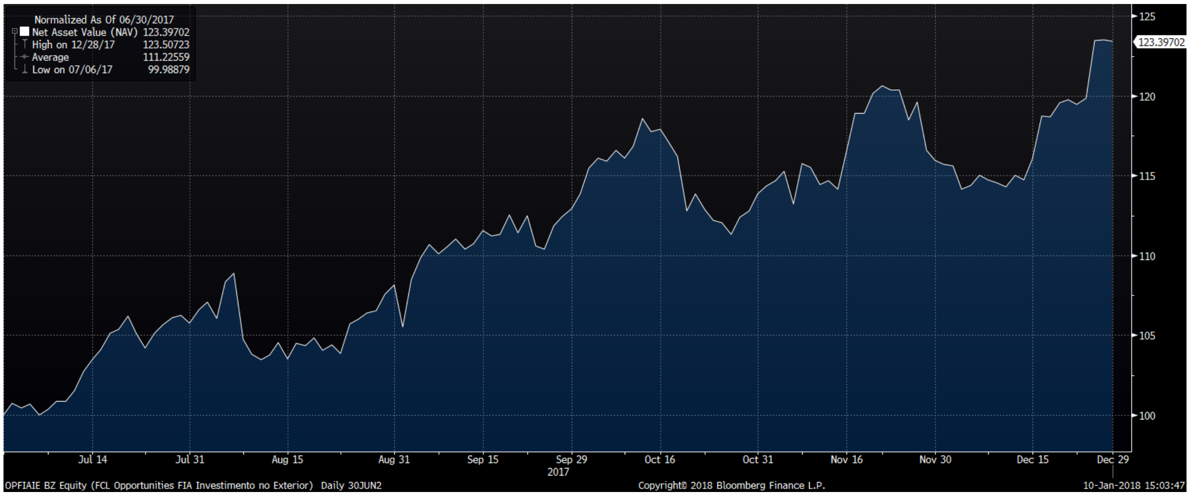
Biggest Positions	Fund´s Total Net Asset Value %	Country
IWG PLC	11,48%	UK/Switzerland
Match Group	11,03%	USA
Gannett	10,19%	USA
Anta Sports	8,34%	China/Hong Kong
Pandora	8,22%	Denmark
YY	7,67%	Brazil
Fibria	7,32%	Brazil
Dufry	6,79%	Switzerland
Brasken	5,03%	Brazil
US Dollar Cash Position	3.99%	-
Fixed Income	3,70%	Brazil
Portobello	3,59%	Brazil
Vipshop	3,22%	China
FCL Hedge	2,76%	-
TTM	2,55%	USA
Fogo de Chao	1,60%	USA/Brazil
Abercrombie & Fitch	0,99%	USA
HDFC Bank	0,82%	India
Ethereum	0,76%	-
Fleury	0,73%	Brazil

FCL Hedge VS CDI, 01/Jul/2017- 31/Dec/2017



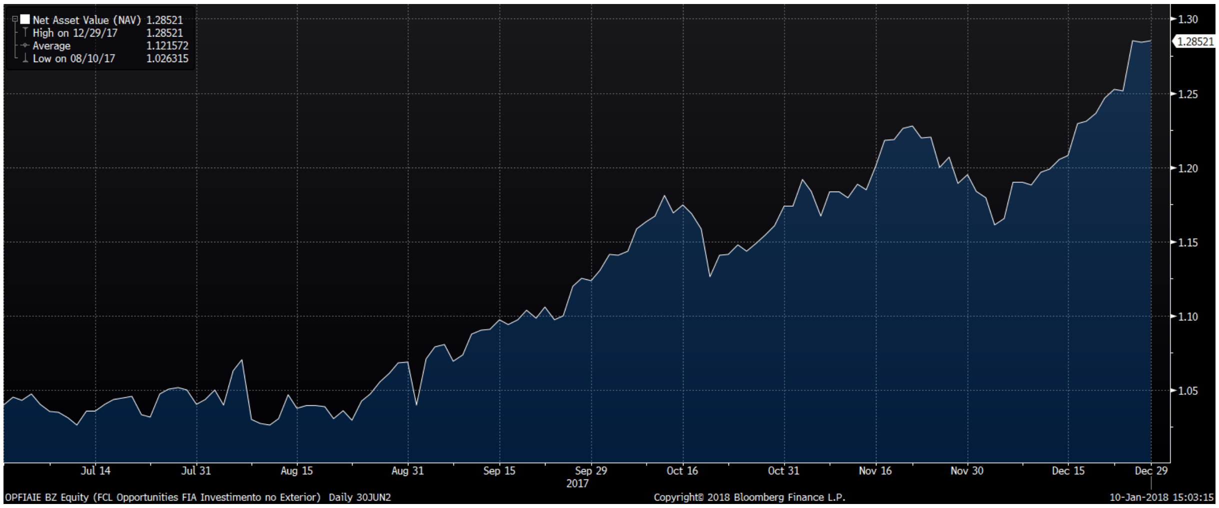
FCL Hedge: +5,79% , CDI: 4,06%

FCL Opportunities in USD 01/07/2017 - 31/12/2017



FCL Opportunities: + 23,39% (USD)

FCL Opportunities in BRL 01/07/2017 - 31/12/2017



FCL Opportunities: + 28,52% (BRL)

Match

Match had a brilliant year, with its ubiquitous Tinder App. In October match launched its "Tinder Gold" subscription option that for several days remained as the first place among social Apps in the iTunes Store.

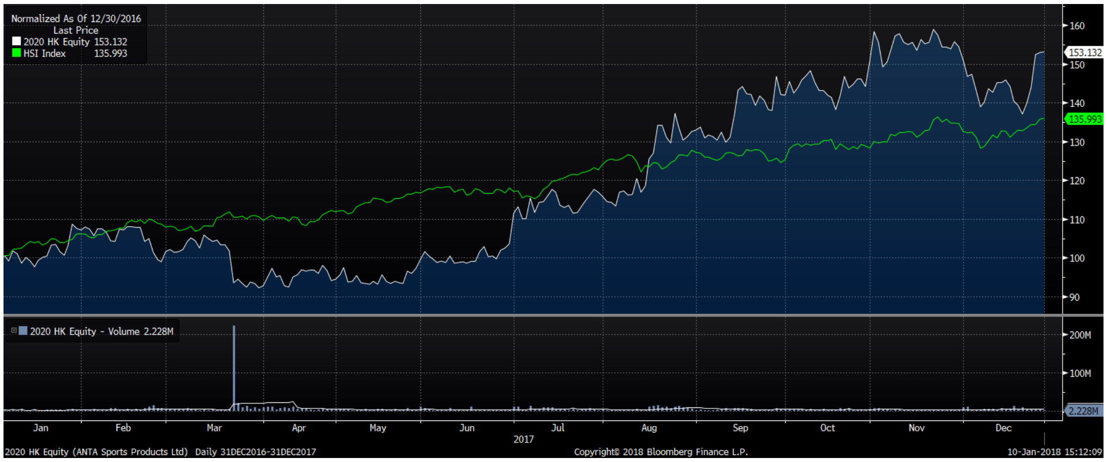
Match vs S&P 500

Match: = +83,10%, S&P: +19,42%

Anta

Anta was also a star performer: gradually the company has been gaining market share in the Chinese fitness wear market and soon will be giving a run for the money in the two perennial leaders: Nike and Adidas.

Anta Sports vs HSI (Hong Kong) Index, 2017



Anta: + 53,13%

HSI: + 35,99%

As the last days of 2017 were passing by, December proved to be an eventful month for two of our main holdings.

In the second week of the month, Eliot advisers, the global hedge fund famed for battling and defeating the government of Cristina Kirchner from Argentina, bought a stake in Dufry.

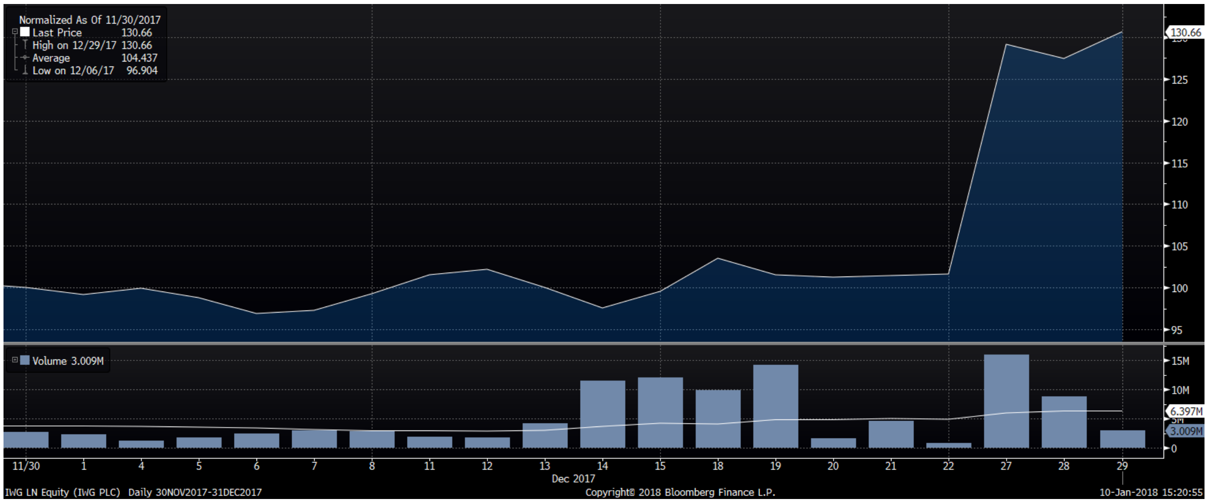
Overall, we are happy with Dufry´s management and still unsure about its recent plan to list its American subsidiary in the NY Stock exchange. That being said, both this house and the market quickly recognized that Elliot brings visibility, knowledge and credibility to the company´s name and we are looking forward to seeing what they have in mind for the company.

Even more importantly, soon after Christmas day, **IWG** received what seems to be an indication of a takeover offer from ONEX and Brookfield asset management.

If the terms that were floated on the media are true, the offer is 275 P a share, which we think still significantly devalues the company, that in our minds could be worth orders of magnitude more than that with a more ambitious management on board. This house will guard the interest of our investors and may vote contrary to the proposal at this price level, if terms are not improved.

That being said, shares reacted positively in the London stock exchange to the possibility of a takeover.

IWG, December 2017



With those specific news cleared, our general strategy throughout the year was:

- Gradually decrease exposure to the US markets, which we started to realize, where increasingly overpriced. We basically just cautiously maintained exposure in the few names we already have and are deeply correlated with our core strategy, like Match and TTM. In this case more than ever, we are trying to buy specific names and get as little market exposure as a byproduct as we can.

- Gradually increase exposure to China and India.

- Whatever excess cash the fund held, we preferred to hold it in US dollars than in Brazilian Real, since we envision increasing currency volatility for Brazil in 2018.

- Increase exposure to Brazilian exporters and commodity producers, like Fibria and Braskem, since we are still bearish about Brazilian fiscal prospects and political situation. Once again, this house finds itself more gloomy about Brazil than the consensus.

We enter next year expecting these themes to remain.

Finally, a few mentions about our company that made us honored this past year.

Our fund, FCL Opportunities was cited many times among the best funds in Latin America this past year, receiving very favorable coverage but even more important to this house is the fact that our ideas was translated into actual performance that benefited our investors

In October we received news that Prequin listed FCL Opportunities among the 10 top performing funds in Latin America in the prior twelve-month period.

Top Performing Fund in 2016

Performance

FCL had the honor of having its FCL Equities fund listed in 6th place among the thousands of Latin American equity funds tracked by **Preqin** the world´s most respected Hedge Fund performance tracking publication..

FCL Equities

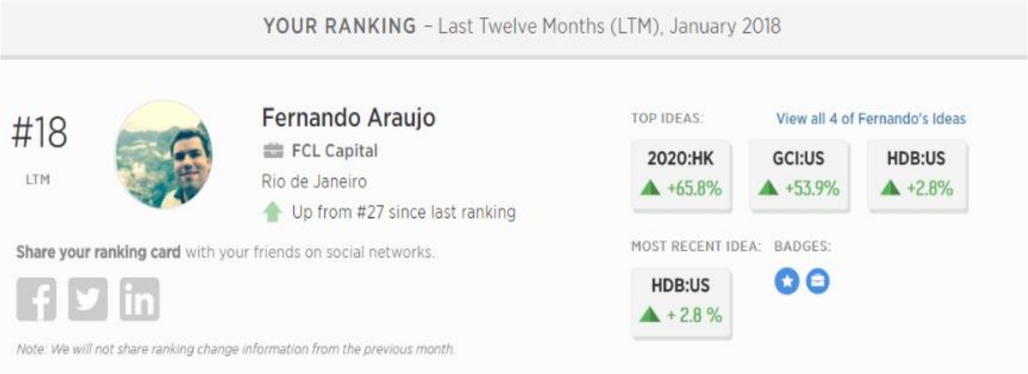
FEATURED AS A
TOP PERFORMING
LATIN AMERICA-BASED HEDGE FUND
2017 Preqin Alternative Assets Performance Monitor
preqin

Fig. 8.23: Net Returns of Top Performing **Latin America-Based** Hedge Funds, July 2016 - June 2017

Rank	Fund	Manager	Headquarters	Core Strategy	12-Month Net Return (%)
1	Alaska Black FIC FIA	Alaska Asset Management	Brazil	Value-Oriented	57.44
2	Horizon Growth Fund	Horizon Capital Management	Uruguay	Long Bias	32.90
3	Polo Norte FIM	Polo Capital Management	Brazil	Multi-Strategy	32.74
4	SPX Raptor Feeder	SPX Capital	Brazil	Macro	31.82
5	Bresser AÇÕES FIA	Bresser Asset Management	Brazil	Long/Short Equity	30.09
6	FCL Equities	FCL Capital	Brazil	Long Bias	29.47
7	Oceana Selection FIA	Oceana Investimentos	Brazil	Value-Oriented	29.25
8	Oceana Valor FIA	Oceana Investimentos	Brazil	Value-Oriented	29.09
9	Kapitalo Zeta FIQ FIM	Kapitalo Investimentos	Brazil	Multi-Strategy	28.71
10	Teórica Equity Hedge	Teórica Investimentos	Brazil	Long/Short Equity	28.50

Source: Preqin Hedge Fund Online

Then in early January, our manager, Fernando, was listed in the Sumzero portal among the top 20 managers in terms of returns generated by submitted ideas.



While it is always nice to get positive feedback we feel more empowered, more energized and more passionate than ever about our mission, our search for alpha and for new opportunities that will drive new cycles and profits for our investors in the coming years and decades.

Walking the streets of metropolises like Sao Paulo, New York or London, it is easy to marvel at the world that trade and commerce have created over the past few millennia: multiple languages, creeds and races waling side by side at dizzying speed and in this same crazy stage of thoughts and ambition that is the modern economy. We are proud to have a small role in this picture, investing, financing and shaping these ideas and hopefully this house will continue to be able to catch a few good ones in the next few years just like we were able to in 2017.

Along the way, our lives will be transformed in ways big and small. But we still see the promise of globalization and convergence, the rise of emerging markets and a dawn of a new world era as one more link in the same chain of events that once gave us the roman Agoras, that gave us the Renaissance, the merchants of Amsterdam and Florence, the buzz of New York, and now will give us a planet with a pulse dictated by technology, convergence, mobility, information and with Asia as an epicenter.

We are humbled and passionate about our mission and thankful for the trust our investors put in us, entrusting them with their money, knowledge and energy. A symbolic toast to the accomplishments of the past year and for all that, together, we still must conquer in the future.

FCL Team, January 11th, 2018.

Sobre a FCL Capital

A FCL Capital é uma gestora de recursos sediada no Rio de Janeiro, cujo objetivo é maximizar o retorno de seus investidores. A FCL tem como nicho principal, mas não exclusivo, investimentos em empresas abertas, listadas em bolsa de valores (posições compradas e vendidas nos mercados acionários). Para saber mais sobre nosso trabalho, entre em contato conosco ou acesse nosso website: www.fclcapital.com.

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Auditoria

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Custódia

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Regulamentação

ANBIMA
A presente instituição aderiu ao Código ANBIMA de Regulação e Melhores Práticas para os Fundos de Investimento.

Administração

SLW
CORRETORA DE VALORES E CÂMBIO