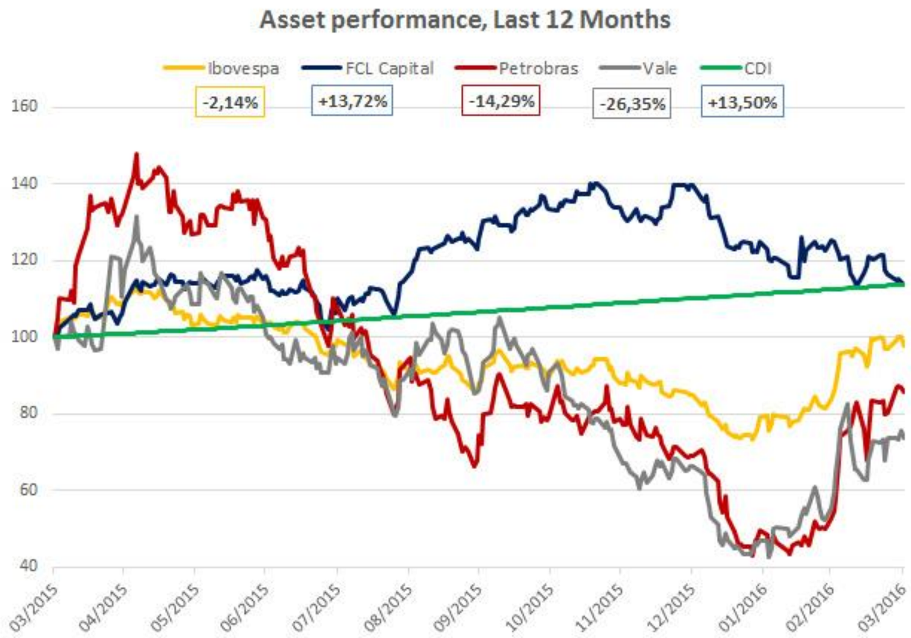
# FCL *Capital*

March | 2016

**Performance**

FCL Equities shares declined 18,66% in the first quarter of 2016. This performance compares very unfavorably with the "impeachment rally" in the Bovespa, which saw its main index increasing 15,47%.

Over the past 12 months, however, FCL's performance is +13,50% compared to -2,14% of the Bovespa Index. Our performance over the past 12 months is in line with the Brazilian CDI and considerably superior to any of the country´s equity indexes.




A series of strategic decisions were responsible for our performance in the first quarter of the year.

Starting in late 2015 and as stated in our 2015 annual report, we decided to transition to being a fund able to invest globally and having U$ dollars as its main base currency when judging risk and reward opportunities (if not yet for accounting purposes).

Since FCL's fund is now 20% comprised on international equities, and a large part of our domestic portfolio consists of dollar earning exporters (like Minerva and Fibria), it is natural that in times of strong Brazilian currency appreciation our shares, which are measured in reais, would fall.

Interestingly, when measured in dollar terms, our shares ended the quarter down only 9%, a bad performance but much better than when measured in reais. This bad performance was largely explained by the real appreciation, since the bulk of our assets in made of Brazilian exporting companies that experienced share price decreases with the stronger domestic currency.

We would also like to call to your attention the fact that the Brazilian market seems to be very short-term oriented right now and with not much regard for fundamentals.

During the first quarter of 2015, for purposes of direct comparison, our shares ended that quarter down almost 21% in Brazilian real and 33% in dollar terms, only to end the year of 2015 up by more than 10% in local currency terms. All of this without our team changing our strategy and even without any drastic change in our portfolio. We sit and waited, confident in our positions.

In one of our 2015 letters, we even stated:

*"Despite our bad performance year to date so far, we think the story of market returns this year has not been written yet. The market is volatile and reacting to short-term news, which almost by definition means things, can turn really quickly. So we should stick to the fundamentals of companies we believe in."*

In addition, in another of our 2015 letters:

*"We think this is a great time to buy Brazilian stocks. In fact, with the terrible fiscal situation of the country, we would even argue that, as was shown at the turn of the century in Argentina, counter intuitively, investing in Brazilian stocks, especially exporters like this house has been doing, is a safer place to store your money than government bonds that could eventually default like LCAs and NTNB's."*

*"Finally, an honest consideration: if we had a strictly global mandate to pick stocks with no emphasis on any single country and were located in, say, New York or London, we would probably be looking at emerging markets now. "*

The most interest passage of our 2015 letters vintage in our opinion came towards the end of our august 2015 letter. So far, in that year, our shares were suffering for exactly the opposite reason they are suffering now: just before the maxi devaluation of the Brazilian real, we were very concentrated in Brazilian exporters. This decision made our fund lag its peers throughout 2015 until the very last quarter when the maxi devaluation came and made our fund end the year in the top quintile of Brazilian equity funds.

**August 2015 letter excerpt:**

*"The interesting thing about having success in markets is that the most basic aspect of this activity is the need to think objectively and independently. Over the first half of the year our portfolio suffered severely because of our decision to concentrate our fund in shares of exporters that would maintain their earning power in case of a severe depreciation of the Brazilian currency.*

*The market, on the other hand, punished us and rewarded the shares of companies deemed "safe", meaning with predictable short-term earnings stability in real. Now, suddenly, these companies are suffering and our portfolio is being rewarded and performing wonderfully. We even got a few calls from investors asking how we could produce such stellar returns amid the market's carnage in August while being fully investing. The short answer is that we were not fools before because of our previous underperformance, and we are not geniuses now because of our recent success.*

*Investing is a marathon and in the end, the only thing that matters is how diligent you are, how well thought are your convictions and, above everything else, if since the beginning if you were right or wrong."*

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Likewise, we think the tale of Brazilian and global markets in 2016 have not been told yet.

For the first time in a long while we think that with the real approaching the R$ 3,50 per U$ level maybe we are finally approaching what could be called a "fair" exchange rate under present circumstances. This is something the country has not experienced in quite a few years, all of them having its economy messed up by under or, more commonly, overvaluation of its currency.

From this reasoning, we can reach two conclusions:

1) If we are correct, most of the "suffering" our Brazilian and international positions experienced because of the real appreciation and consequent realignment of the exchange rate( because of a possible decline in margins in the first case and lower translation of their share prices to Brazilian real in the second case) must be over.

2) If we are still invested in these companies, it is not because of a "macro bet". Instead, it is because we believe in their fundamentals, and the comparative advantages they enjoy in the global economy.

| FCL Capital - Performance | | |
|---|---|---|
| | In Brazilian Reais | In US Dollars |
| First Quarter of 2016 | -18.66% | -9.66% |
| First Quarter of 2015 | -21,13% | -34,82% |
| Year of 2015 | +10,73 | -26,44% |

Overall, we do not see huge discrepancies in the prices of Brazilian assets right now. We think the exchange rate is approaching justifiable levels, the very imperfect and concentrated domestic stock index is reflecting the current uncertainty and interest rates and looking for a credible scenario to price risk. Overall, no absurdities we could easily spot.

Our strategy so far, continues to be:

1) To think in dollar terms. Especially now that we think the Real-USD exchange rate is approaching fair levels, a globally diversified basket of stock investments is the way to go. We are not political analysts and have no inclination to bet on the outcome of the political process.

2) Willingness to hold high cash levels unless we see very compelling investment opportunities. So far, we see few of those in global markets.

3) Continue to monitor the macro panorama and the average level of global financial asset prices in search of more insights

We know the fund's volatility is in a higher than desired level. As long as investors have more clarity in the Brazilian and global scenarios (and both scenarios are especially unclear right now), we think we may have more confidence in the perspectives for the next few years.

How do we profit in this scenario? Obviously, we do not have crystal balls and are not political experts to have a better assessment in the impeachment vote or any other political event than the average analyst is.

Therefore, since we only like games that are ''rigged in our favor'', we won´t play this one, remaining invested in opportunities as uncorrelated as possible with the Brazilian political process and economy, like American and European shares, stakes in Brazilian exporters not dependent on the local economy and so on.

Many investors are trying to guess about political uncertainties and betting for or against, say, Petrobras shares or the Ibovespa Index. We prefer at this moment to hold relatively high levels of cash and invest in companies, which we judge can profit from either scenario.

To many people, an impeachment of president Rousseff would be a terrible or amazing scenario. To companies like Fibria, Apple, Regus and Minerva, the issue is, happily, an irrelevance.

## 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**

BDO

**Custódia**

BM&FBOVESPA
A Nova Bolsa

**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