

FCL*Capital*



OCTOBER 2019

QUATERLY
LETTER

Performance

Our results

FCL Hedge

Description	Performance
FCL Hedge, year to date 2019:	14,43%
FCL Hedge, last 12 months:	15,15%
FCL Hedge, last 12 months % CDI:	242%
Annualized since inception:	5,94%

FCL Opportunities

Description	Performance
FCL Opportunities, year to date, in USD:	+25,16%
FCL Opportunities, year to date in BRL:	+34,35%
MSCI ALL Country Index, all, USD:	+20,17%
FCL Opportunities, in USD since 01/30/2017,:	+28,85%
FCL Opportunities, in BRL since 01/30/2017,:	+71,28%

Both strategies had a very positive third quarter and are on their way to a satisfactory year of 2019.

FCL Opportunities' shares increased +34,35% so far in 2019 in Brazilian Real and 25,16% in US Dollars. Since inception, Opportunities has appreciated more than 70% in Brazilian Real and almost 30% in US Dollars, confirming our conviction about a concentrated and proprietary strategy focused on BRICs related ideas.

FCL Hedge is also having a great year, performing more than 200% of the Brazilian CDI in the past 12 months.

In the year so far the best performers in our Portfolio were Minerva, Anta and Match.



FCL Opportunities VS MSCI ALL Country Index ETF, since January 30th, 2017, in BRL.

Portfolio our positions

FCL Hedge Portfolio 09/30/2019

Biggest Positions	Fund's Total Net Asset Value %	Country
Repo operations	27,96%%	Brazil
NTNB 50	10,30%	Brazil
Ibovespa	9,71%	Brazil
Yduq Holding	9,31%	Brazil
LFT 2022	9,02%	Brazil
LFT 2023	9,02%	Brazil
Brazil Materials Index ETF (Imat ETF)	7,75%	Brazil
NTNB 22	5,37%	Brazil
NTNB 24	5,29%	Brazil
Suzano S.A	2,94%	Brazil
EBND Bond ETF Global	1,97%	Brazil

FCL Opportunities Portfolio 09/30/2019

Biggest Positions	Fund's Total Net Asset Value %	Country
Anta Sports	15,34%	China/Hong Kong
YY	9,09%	China
VTB Bank	8,98%	Russia
Yduq Holding	8,04%	Brazil
Capri Holdings	7,66%	USA
Match Group	6,60%	USA
Minerva	5,45%	Brazil
Dufry	5,43%	Switzerland
Ctrip	5,41%	China
Vipshop	5,15%	China
Fleury	5,15%	Brazil

The biggest addition in our portfolio this third quarter was Capri, a fashion holding company listed in the NYSE comprising mainly of three different brands: handbags and accessories specialist Michael Kors, fashion shoe store Jimmy Choo and high fashion and runaway focused Versace. We will give greater space and thought about our position in Capri in the future but in this letter will only go on to say we are very confident in the company's future expansion in Asia and the BRIC countries.

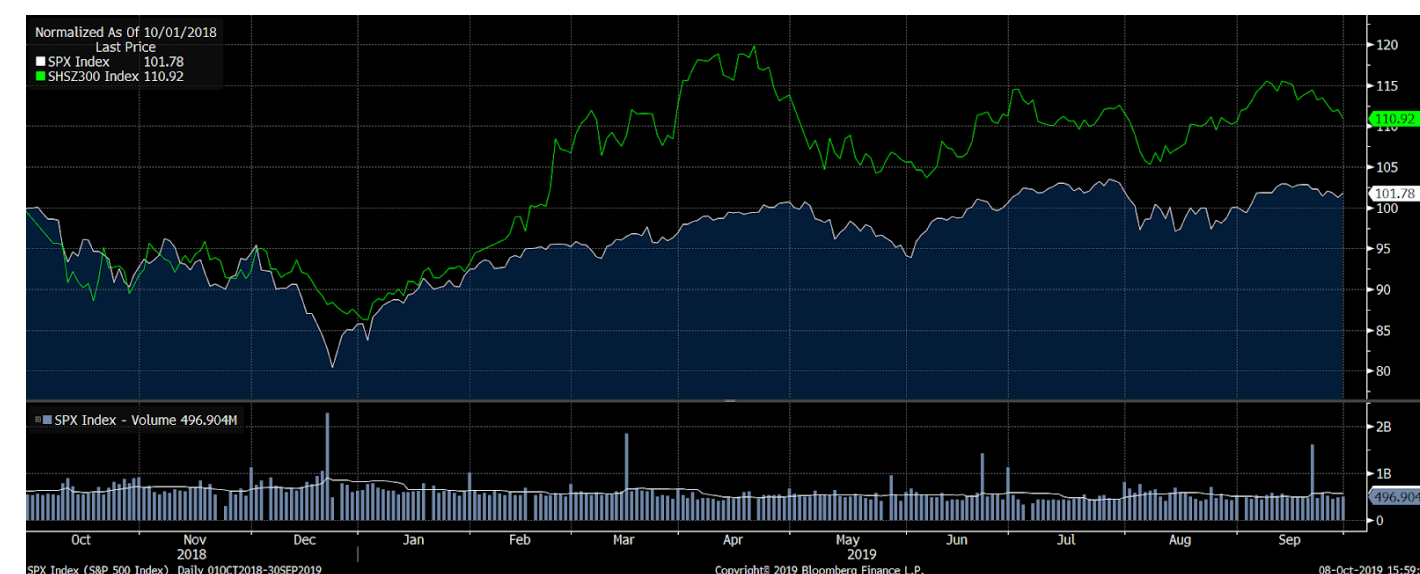
We continue to gradually decrease our holdings in Match Group and Minerva after both positions reaching recent record highs. That being said, this house is still bullish in both companies

FCL Hedge has been decreasing its risk exposure throughout the quarter after the very good Brazilian markets year to date performance. Our international book is mainly exposed to short term government bonds and some specific ideas while our Brazilian book has positions in the Brazilian stock index, Brazilian long dated government bonds and repo operations.

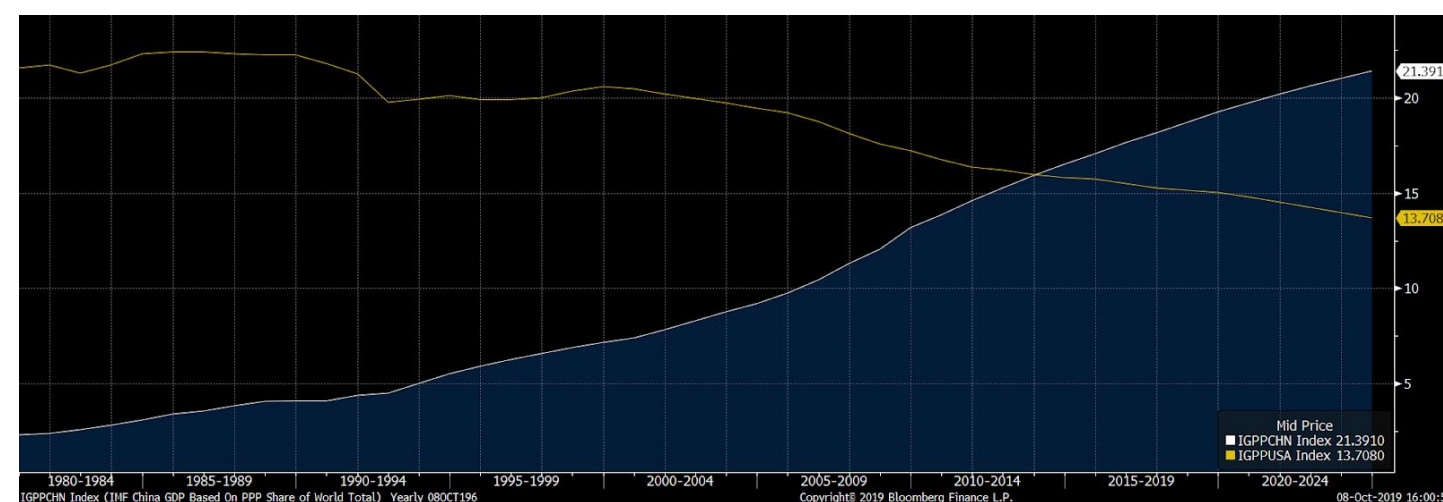
As for the future this house thinks that the direction of the global economy, world affairs and consequently global markets will be dictated by the fundamental relationship of this century: the one between the incumbent superpower, America, and the emerging one, China.

The most perceptive change that happened in the past couple of years was the start of active efforts from the incumbent superpower to go out of its way to try to block the rise of the emerging one, probably due to the very human and very irrational economic concept of relative positioning: what matters is not that in the future we will live a better life, or even a good life, as long as our life is a better life, or a less miserable life, than the one others are living.

America seems to have embarked on such a mental journey and needless to say, it will be a futile attempt: China's rise certainly can't be stopped but what both countries certainly can do is to throw global markets and possibly the global economy in a recession if they don't come to reasonable terms about the differences in their relationship.



China CSI300 (green), vs US's S&P500 (Blue), last 12 months



China (blue) and USA (green) share of global GDP, PPP

In the medium term, this house foresees a decrease in risk, with Opportunities assuming a more classical value framework and being less bullish in long maturation investment ideas and Hedge favoring liquidity and safety. That being said, in moments of turmoil the best investment opportunities arise and this house is certainly willing to seize them if markets allow for that.

Ctrip the story

Our permanent search for the champion of the 21st century takes us in this letter to Ctrip and its amazing CEO Jane Sun, and its co-founders, James Liang and Neil Sheng who started the company in Shanghai back in 1999.

What is Ctrip? Maybe one should ask billionaire financier David Rubenstein, founder of Carlyle group and one of the amazing minds in finance. Shortly after Ctrip's IPO in New York in 2003, Rubenstein invested in the company's shares, saw its money quadruple in price and took the profits from it. Only that the company was worth around U\$ 100 million dollars back then against some U\$ 20 billion now. Had he just done one of the hardest things in finance, sitting still, he would have profited not four or five times, but two hundred times.

Human beings have always had the urge to move. From ancient silk roads, brave Portuguese navigators risking their lives, earlier waves of immigrants around the globe in search of a better life to modern day tourists, eager for the ultimate selfie in front of one of the world's landmarks, we've always wanted to explore our planet and see its endless possibilities

Naturally, with the advent of the internet, global communications and easier transportation, the industry entered a new era in the past few decades.

In the US currently the industry has a few clear leaders depending on the niche:

-**Booking Holdings** is the leading website for the provision and booking of accommodations. Since the hotel industry is very fragmented, with many thousands of providers and the airline industry significantly concentrated, the provision of accommodations and packages tend to be the most profitable part of the industry chain. Booking Holdings market cap sits around U\$ 82 billion dollars at the time of this writing.

-**Expedia** is the leading provider (except for direct airline sales) of airplane tickets. Not surprisingly, the company's margins are significantly lower than Booking Holding's. Also not surprisingly, the company has been diversifying to the provision of accommodations, packages, train tickets, etc. Expedia's market cap is around U\$ 20 billion dollars at the time of this writing.

- A significant number of important private companies like **Hotels.com**, and, most notably **AirBnb** also try to play in different parts of the tourism value chain either by working with hotels, booking tickets and packages or, in AirBnb's case, turning hosts into Hotel owners and trying to disrupt the hotel industry altogether.

Booking.com

The Expedia logo features a blue circular icon with a yellow airplane silhouette, positioned above the word "Expedia" in a bold, blue, sans-serif font.The Airbnb logo consists of a red, stylized, interlocking circular icon followed by the word "airbnb" in a lowercase, red, sans-serif font.The Ctrip logo features a blue circular icon with a white and yellow stylized figure, followed by the word "Ctrip" in a blue, sans-serif font, and the Chinese characters "携程爱玩" in a blue, sans-serif font below it.

So before we start, a safe question would be, what is the future of the travel industry?

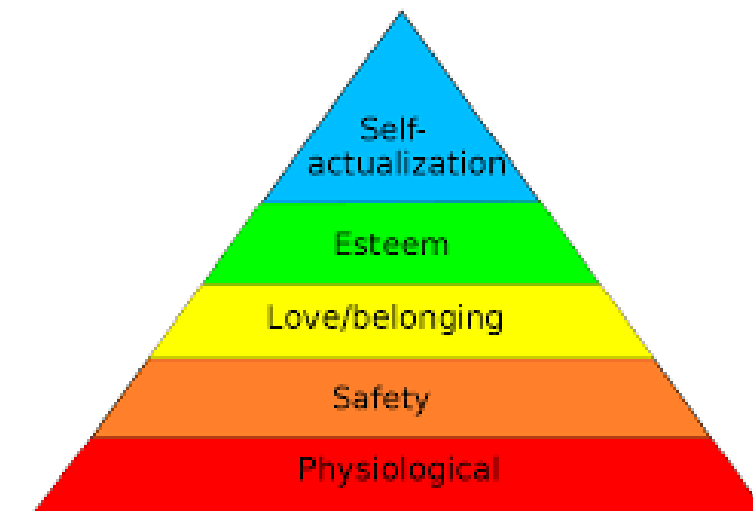
We could argue it is a defensive industry over the longer term: once we look past the normal economic fluctuations (obviously there is an impact with consumer slowdowns and recessions and discussing if we are entering one if beyond the scope of this thesis) , we can see an industry in long term ascension, that is not only not harmed by the rise of the internet, but certainly benefited from it.

If it is true that millenials everywhere crave experiences instead of possessions, seek social status and opportunities for the best selfies they can find and use the internet as a vehicle for finding what they want, the online travel industry should be a long term winner in the 21st century.

And even more, the leader in the one country that is expected to be the planet's largest travel market could certainly be a champion of the 21st century. And this company happens to be the theme of our thesis.

Besides being defensive, travelling is already one of the logical steps up in the consumption ladder for the Chinese population.

Acquiring material status not even dreamed by their parents, young Chinese are starting to explore the globe. If one has recently been sightseeing in any of the planet's touristic global spots, their presence is certainly already being felt.



According to Maslow's famous pyramid, once a human being has secured physiological and safety needs, he moves towards craving esteem and personal realization conquests. Few things would describe modern China more clearly in this house's eyes: once hundreds of millions of workers have secured their first house and car, they will seek a life of knowledge, of discovery that only travel brings.

China has always been a route of caravans, travelers and adventurers. From Marco Polo, who travelled in the ancient silk road stayed in China for 17 years to modern day tourists taking pictures of the Xian warriors, the country is an amazing place for travelers to explore and increasingly also for Chinese people to go out of its borders and get a taste of the rest of the planet.

China, due to the fact that its population is made of hundreds of millions of internal migrants who left the countryside to work in cities, also experiences what is the globe's largest annual migration: Chinese New Year, where hundreds of millions of people head back to their hometowns for a week. We urge our American readers to think of it as thanksgiving times 10 or the rest of our readers to think of it at the time of the year where everyone heads back home to visit your relatives.



Chinese New Year annual migration

This all goes on to say that not only global travel has an amazing future in the next few decades but the online travel industry in China has massive potential, assuming like this house does, that its population keeps climbing the economic ladder. The leader in online travel in China will almost certainly be a massive company in a decade or two.

Numbers & competitors

In the last section we tried to defend the thesis that Ctrip may be well on its way to being one of the most relevant internet consumer sector companies globally in the 21st century. Naturally such a company, with multiple optionalities, being a global leader in areas such as data management and AI, shouldn't be an obvious bargain. It is far from being a deep value situation.

Fortunately, the current global macro picture with its horrible news flow, may provide such a window of opportunity.

Let's look at Ctrip's price to sales ratio over the past 5 years:



Down from peaks of nine to ten times sales from 2016 and 2017 highs, the company now trades at 3.6 times sales. Obviously, current news of lockdown and protests in the crucially important Hong Kong destination, a globally risk averse scenario and continuous investors skepticism about China are pressuring the company's multiples

Ctrip multiples

Price to sales ratio	3.6
Forward PE Ratio	21,6
Ebitda margin	17,2%
Forward Free Cash Flow Yield	5,2%

The company has more than triples its sales since 2015. Obviously, a huge part of its growth is now behind but that are still huge growth avenues ahead in its services, packages and AI divisions. Also, its trip.com brand, focused in serving international travelers outside China, should gain prominence and if enough scale and dominance in China is achieved, we could even foresee a scenario where Trip.com frontally challenges the western leaders like Booking Holdings and Expedia. International sales make up about 35% of the company's sales with the bulk of it being Chinese nationals travelling overseas and some 10% of total company sales already encompassing trip.com. That proportion, we expect, should grow over time. How does Ctrip's numbers and multiples compared with its western peers?

We selected three peers for our analysis: Despegar, being a leader in Latin America should provide a direct comparison, although the company is not yet profitable
Booking holdings and Expedia being global leader should also provide a framework about how investors view the industry.

Despegar

Price to sales ratio	1.57
Forward PE	negative
Ebitda margin	5,1%
Forward free cash flow yield	Negative

Booking Holdings

Price to sales ratio	5.51
Forward PE	18.81
Ebitda margin:	38,5%
Forward free cash flow yield	5,92%

Expedia

Price to sales ratio	1.68
Foward PE	19,9
Forward free cash flow yield	6,52%

Comparing those global competitors our house gathered a few conclusions and opinions about the sector:

-Ctrip is by far the most strategic company of the sector. Its dominance in China, which is on its way to being the largest travel market, its AI and services capabilities and its international expansion potential, with multiples possibly converging and surpassing Booking's make a one of a kind asset.

-booking is obviously the best in class and most established global player. Its margins and size prove that although its growth is slower than Ctrip's (it grew some 45% since 2015 against Ctrip's growth of more than 200%) and this should continue in the future

-Despegar is a very interesting but niche and incipient company in a market that does not have the same potential as China or the US

-Expedia is a leader in a less profitable corner of the market

Comparing Ctrip multiples with Booking's we find that their multiples are very similar (very similar forward PE and Free cash flow yields but with Ctrip's having faster growth and less than a quarter of Booking size and an additional optionality with the possible convergence of its margins to levels closer to Bookings

Judging all those facts this house concludes that Ctrip is the most interesting opportunity in the sector.

Traps in the journey

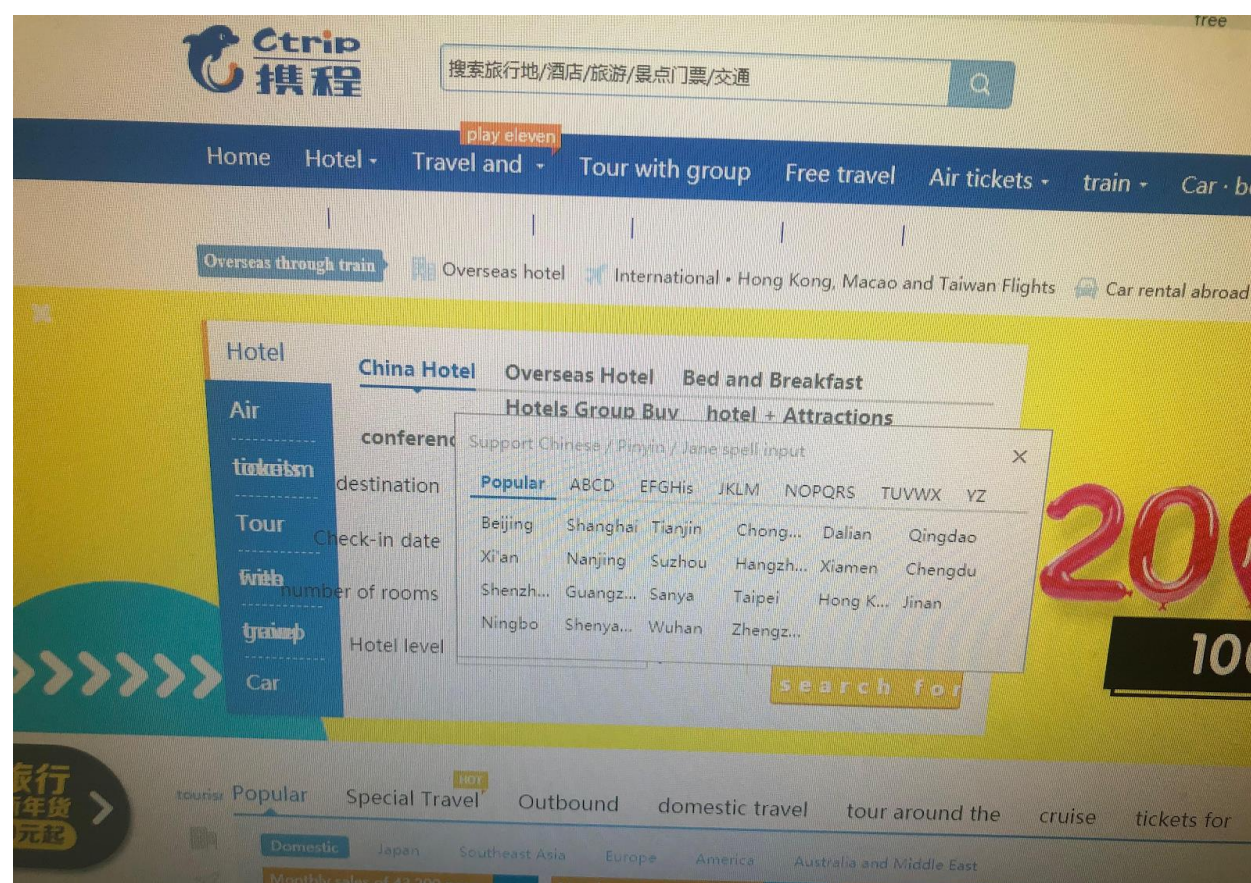
So what could go wrong in trip to prominence by Ctrip?

Our team spent time gathering and analyzing a few possible dangers in the road:

1. Hong Kong problems could escalate and become chronic

More than half of Chinese outbound international travelers in China went to Hong Kong (if we count Hong Kong as a separate national destination than China)

This means that Hong Kong remains the most important international destination for Ctrip and obviously the current disruption there is already impacting the company 3Q19 numbers which will come out later this year





Picture occupy Hong Kong protests

Even more importantly, if the current tensions don't get resolved, the territory's economy and attraction for international travellers could be affected in a more structural and longer term fashion

This house's base case is still for a peaceful dissolution of protests and return to normalcy.

2. China's economy could crash

Always a possibility and obviously this one would have serious negative consequences. That being said, if this does happen, and this is a black swan in our opinion and not a very concrete risk, we would argue that internet consumption, with its long term structural growth would be one of the most protected spots in the Chinese economy.

3. Worsening of competition

The most serious risk in our opinion. Although a number of Chinese players are making strides, Ctrip remains the clear leader in Chinese online accommodation booking and travel tickets (although Meituan claims leadership in China with very disputable numbers).

Also, a mitigator is the fact that from incumbent Ctrip can also be disruptor and eventually invade Booking's and Expedia's turf in the west once it gets enough scale at home. Already, its size is becoming similar to the global leaders.

The road ahead

In this section we tried to outline why this house thinks Ctrip might be one of the most prominent internet companies in a decade or two down the road. We think the company's has numerous moats (its user base, AI capabilities and first entrant advantages), opportunities (international expansion, China's market growth) and resilient and engaged consumers.

We are excited about this new addition to portfolio and look forward to working with the company in our journey together that lies ahead.

Welcome to the other side of the looking glass

“ - have I gone mad?

Alice

- I'm afraid so. You're entirely bonkers. But I'll tell you a secret. All the best people are. **Mad Hatter**”

IN the interesting corner of business this house focuses on the intersection between global financial markets and the real economy, as we write this letter in September 2019, global investors have been amazed by a few fascinating perplexities.

As they scratch their heads trying to make sense of things, it is almost like someone somewhere is laughing out loud as they watch expensive companies become more expensive, negative yielding bonds outperforming emerging market ones and other bizarre things one would only expect in Alice in Wonderland's, other side of the looking glass.

Things are not what they should be. Global asset prices are simply misbehaving. They are acquitting weird. Some corners of finance are even starting to show behavior that would make the mad hatter shaken. They don't seem to make any sense anymore. But then, is everyone missing an important bit and they do after all? Are the players acting irrationally or is finance itself distorted? Like the most memorable scene in The Matrix, the young boy after mentally bending the spoon asks, "is this a boy warping a spoon or is the spoon warping the boy?" It would all look the same after all.

Since those misbehaviour and this bent financial world keeps moving global asset prices, we decided to dedicate this letter to give our opinion on a few of them, and use this opportunity to renew our framework on a few important calls that will be crucial to decide if we will be able to keep outperforming global markets in the second half of the year and in 2020.

Be warned, dear reader that some of our opinions are unpopular and-a not unprecedented occurrence regarding this house- some may be even crucially contrary to the consensus. It is not a single month or quarter that will decide who is right or wrong in this contest between this house's conviction and the rest of the market, but the slow and steady turn of the wheel of history in the next few years and decades.

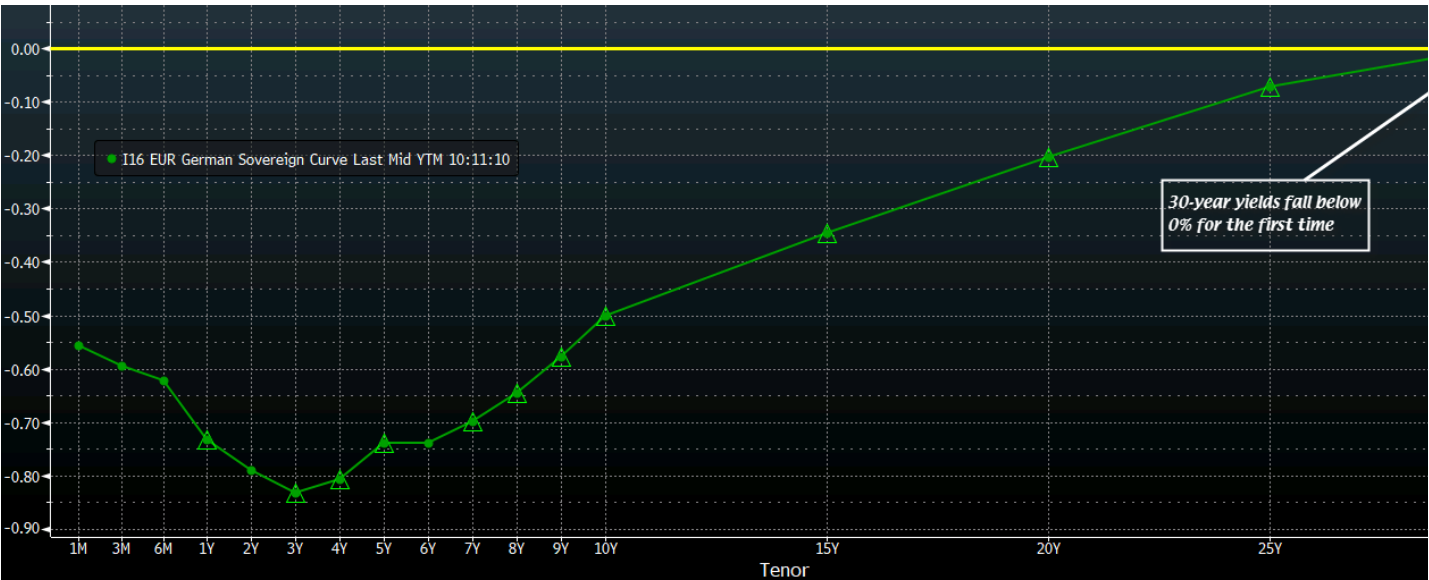
If there is one common theme in all of those stories of misbehaviour and bent reality is that prices are tending to move in unexpected and curious ways.

Warped reality 1: Trillions of dollars of global bonds are yielding negative rates. They keep going up. Meanwhile, they are making everything expensive, unleashing a bull market in everything.

The first phenomenon we should inspect is the revolution in global interest rates- a global convergence towards zero and below, with some emerging markets now making steps toward this global developed markets lead dance-including our home country.

This occurrence is an amazing story by itself, as bizarre as anything that could be thrown at Alice at the other side of the looking glass. We all learnt in financial school and in our CFA textbooks that the yield is the reward an investor has for parting with his money. We lend money to someone and should expect more in return.

How to call the fact that Germany has its whole yield spectrum-up to its 30 year bond- in negative territory? Or that there are trillion of dollars (the exact sum increases every day) of government bonds that literally charge their investors for the privilege of holding them?



The entire German Yield Curve is now in negative territory
In this bizarre world this house is sure that the Chesire Cat of Alice would probably add that if we are to live in a negative yielding world- and in the Brazilian context, if not a negative but for the first time at least a low yielding one- some tricky little things start to happen.
The pattern usually goes like this: Since rates fall, investors start to get desperate for yield, for anything producing a return. Risk control decreases. Exoteric investment options start to abound. Investors (as its starting to happen in Brazil) will have to learn to live with less liquidity, higher risk or lower returns, take your choice. But certainly the impossible CDI trifecta of daily liquidity, double digit returns and total safety has gone the same way as green Coke bottles- they are history.
There are many important and beneficial aspects in this. First of all, zero is just another number.

There is no reason the correct price for a bond in an open market (and prices are a form of information) is bellow this threshold. That being said, it is also a fact that in our opinion, an environment of super low interest rates will make every risk asset super expensive, as can be seen in global stock market high PE multiples, especially the US.
But not only stock- a global low interest rate environment is also making the price of everything, and we mean everything- Real Estate, Art, Bitcoin, going through the roof.
How does it all end? Probably with some combination of higher rates in the future (if something can't go on forever it won't), lower stock multiples and bond prices and especially lower prospective returns for the next decade than in the past one. All of this should also encourage a migration to necessary higher risk taking from investors with more embrace of asset classes like private equity, venture capital, emerging market stocks and small caps. Signs of this are already starting to happen.
In the US endowments and pension funds are rushing in to invest in private equity and venture capital while in Brazil millions of investors are starting to discover life away from the familiarity of the CDI.



US 10 year's treasury Yield and Brazil's Selic Target Rate, last 5 years

For our fund, we think higher multiples are something we will have to deal with, never forgetting the discipline to let good investment opportunities go as long as the price doesn't feel right. That's the (tough) job of a value investor and our house's mandate.

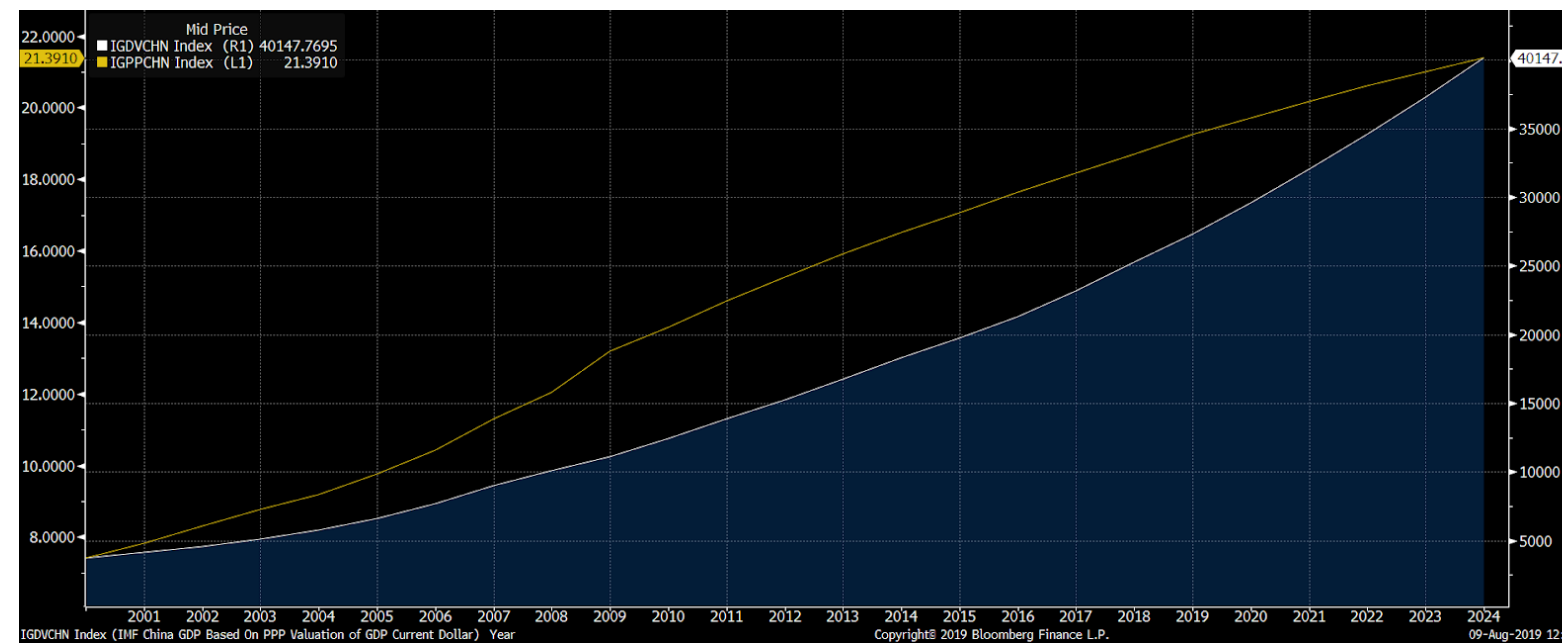
Warped reality 2: China pessimism

The second story starts (at least in our opinion) with total disregard for long term thinking and number crunching. Investors decided, since at least 2015, that China will crash sometime. We can see it in the headlines, in the news hour, on YouTube, on the cover of magazines.

It doesn't seem to matter that since 2015, the year of the last major China scare, the country's economy is already a third larger by now, growing three times faster than the US Economy.

Also, it doesn't seem to matter that China is now the largest economy by PPP and home of many of the largest unicorns in private markets and a hotbed of ambitious entrepreneurs. Or that Shenzhen, three decades ago, little more than a fishing village, is the greatest threat to Silicon Valley as the globe's major innovation hub.

The notion (and we would add even rooting) that the next Trump tweet will destroy China makes many investors numb to the possibilities of amazing new companies being formed and accessing chinese and global public and private markets. Crucially, it makes them bypass the most fertile market for investment opportunities of our time.

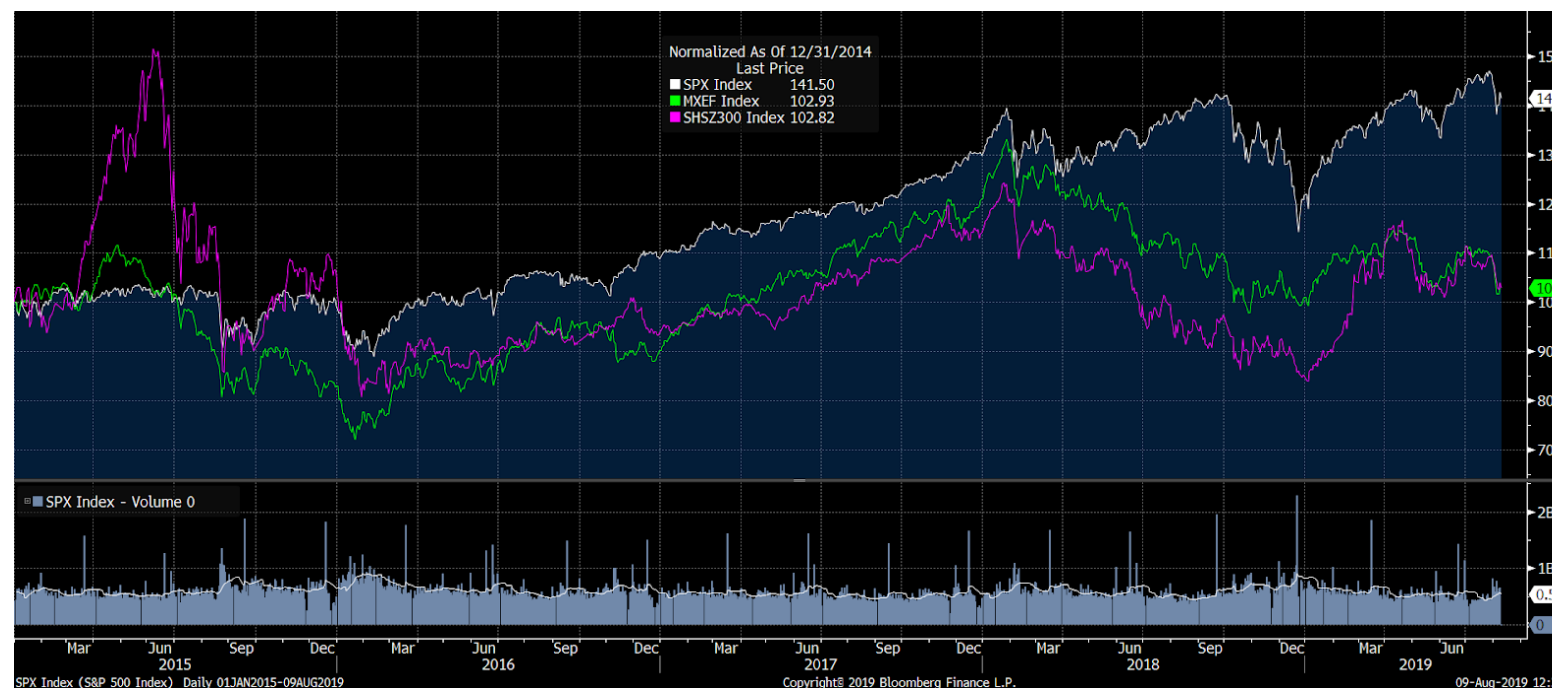


China GDP, PPP, Current Dollars & China's GDP share of world Total, IMF.

As long as the Chinese economy keeps growing over the long term at reasonable rates and the country keeps producing amazing companies, we are happy to face some short term volatility coming from the trade war. We feel the trade war might indeed be remembered as an opportunity, a great entry point to China.

Our opportunities fund is still positioned in amazing Chinese companies like Anta, YY and CTRIP and any short term price volatility may be seen by this house as an opportunity to increase our stakes in these and other amazing Chinese business models that will keep flourishing over the long term.

On the other hand, as we write this letter the S&P500 was touching all-time highs. Some investors are suggesting that the whole BRICs/emerging markets concept is a flop, that global convergence has stopped and that the US is the real growth story of the 21st century. We beg to disagree.



S&P500 (blue) VS Emerging Markets Ishares Index (green) VS China's CSI300 (purple) , past 5 years.

While does a mature economy growing at 2% per year gets all the excitement while one growing three times faster is seen as a has been, the Mad Hatter could ask?

Although the US still has by far the most sophisticated economy and is home to many of the most ambitious and amazing companies and entrepreneurs, we have little doubt that over the next few decades most of the really huge positive financial dislocations: the super unicorns, the exponential growth in wealth, the huge IPOs and penny stocks turned into multi-billion dollar companies will come not from America but from the still obscure and unlooked corners of the four big emerging markets and even from unknown companies coming from US/Europe will have those four markets as their north.

Our house is not denying that the trade war is hurting China (and by the way, the rest of the global economy, including the US). Our point is that in this case investors became so enamored of the current narrative that they are forgetting to look at the numbers.

And the numbers tell us that China is still growing at an incredible fast pace and its on its way to become the largest economy sometime in five years or so.

One final thought, our fund, though exposed to China, is heavily tilted towards the consumer and internet sectors and absent in Chinese commodity and infrastructure related ones. Even if the trade war intensifies we should suffer a lot less than the market.

That being said, it is a fact that daily fluctuations, sometimes violent ones, will happen and our investors should be aware that our fund is willing to endure those daily fluctuation to enjoy the long term opportunities provided by those markets. We never said that the journey would be easy or painless.

Warped reality 3: Why is US Big tech the one thing really outperforming everything else?

For lovers of financial history, it is obvious that investors obsess with specific companies sectors and stories from time to time, be it Tulips in ancient Netherlands, conglomerates in America in the 1970s and so forth. Investor's current obsession is certainly more restrict: a few select world class Californian companies that, obviously , already have an acronyms going for them. Most specifically the big tech platforms from the US called the Faangs (Facebook. Amazon, Apple, Netflix, and Google/alphabet)

Why are these growing companies enjoying sky high multiples? And why, like we will discuss next, everything that is growing, enjoying such an outperformance over value? Simply because we are living in a world where growth is scarce and in an open economy everything that is scarce commands a premium.

We couldn't stop thinking about Match, our only major investment in US markets nowadays is also, to a lesser extent, a growing tech platform, although a small one compared to the ones mentioned above and one that is enjoying high multiples that rest on future growth.

So far this is year, our fund is gradually and slowly reducing our position because multiples seem a bit high to offer an attractive margin of safety. That said, we still love the company and think it may someday deserve its rightful place among those huge names. Maybe the acronyms should change to 'Famangs' (Facebook, Amazon, Match, Apple, Netflix and Google) someday.' Will the tech giants crash? No one is saying that. But history tells us that the bluest of blue chip companies eventually cedes its leadership to new players from a new era. We wouldn't bet that the future would be ruled by this group of companies that leads the present. We wouldn't buy them right now at current market prices.

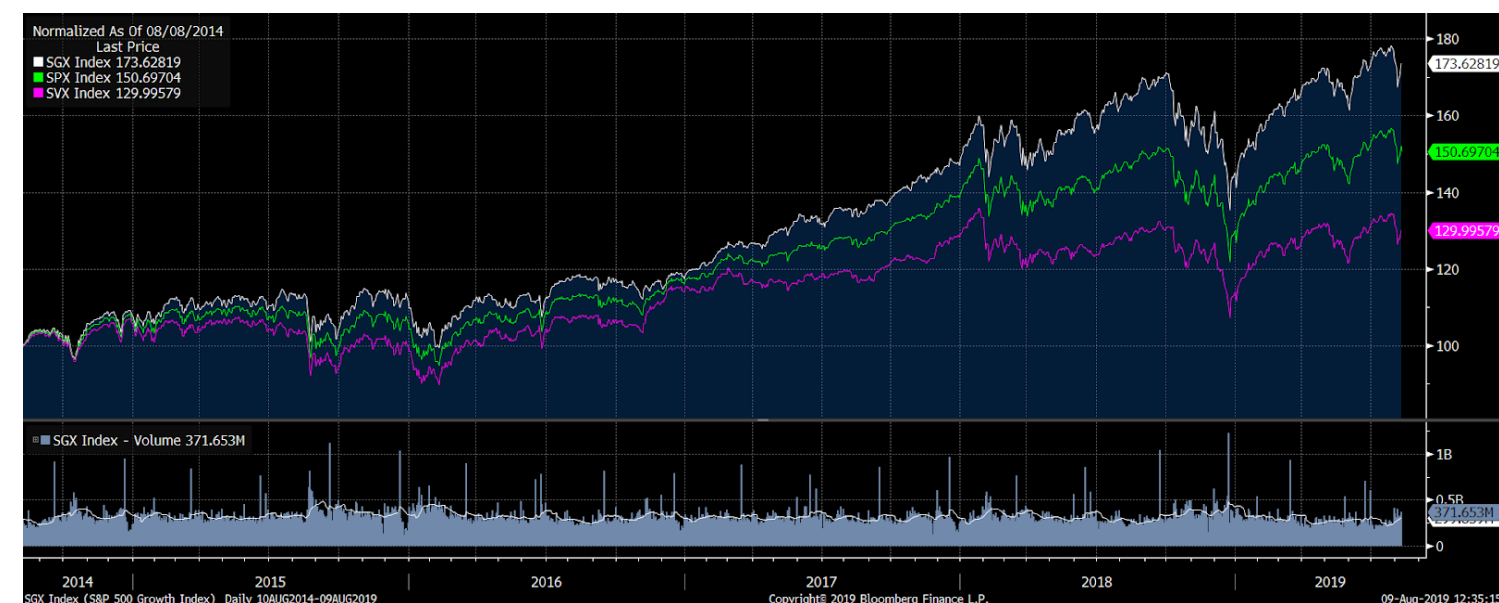
Warped reality 4: Growth outperforms value like never before.

Since the dawn of time, two groups of stock pickers compete about whose method is the best one to produce long term returns- growth investors- the ones trying to identify fast growing companies and accepting paying high multiples for that, as long as they keep the dream of finding the next Apple or Starbucks alive- and value investors, the skeptics that refuse to pay high multiples because they know investors tend to overpay for the fancy exciting growth stories of the moment, preferring to concentrate on buying cheap and predictable firms.

Throughout history, traditional value investors had the last laugh for most of the time, value usually outperforming growth, but over the last few years, value investors simply got crushed. That helps explain paradox number 3 discussed above.

There are two main reasons for that:

1. In a low yielding world, with super low discount rates, future cash flows are valuable, even if they are far away in the future, so growth stocks benefit. Besides, risk taking is increased. Value tends to outperform in more normal interest rate environments with more usual rates of discount.
2. As we argued before, scarcity commands a premium and in this low yield low growth world, One of the most puzzling facts for a value investment house like ours is the amazing and almost unprecedented outperformance of growth.



S&P500 Growth Index (Blue), S&P500 index, (green),
S&P value index (purple), past 5 years

Everything in life happens in cycles and we are quite confident this cycle, albeit long, will come to an end sometime and we will live through times where value outperforms once again. If that happens, the place to be will be high yielding defensive companies and not exciting fast growing ones like the ones discussed in item 3.

Our FCL Hedge fund, that has a more tactical and shorter term allocation than our Opportunities fund, has over the past year started to reflect this change in dynamics that we believe is going to happen and adjust its portfolio accordingly. Our Opportunities fund has slowly started to sell our stake in Match Group, our most profitable position so far due to current multiples.

Warped reality 5: global pessimism towards Brazil

The final story we will investigate in this letter takes us closer back to home: the global pessimism towards Brazil.

Why has an (economically) reformist government been met with such cynicism so far? The Brazilian bull market this year has largely been driven by local investors while international investors completely sided out of the Brazilian rally. The country's rating has yet to be upgraded and its image abroad keeps scratched.

To a large extent this is happening because international coverage of Brazil has been very negative since Bolsonaro's election. He is seen by global publications like an extreme right winger inclined towards populist policies. So far as our house has argued in the past, his better instincts towards the economy personified in Paulo Guedes are taking shape while Brazilian democracy is working to nullify and mitigate his bad instincts when it comes to areas outside the economy.

Global media has created the image of a bad populist. Let's go to the facts: the country will finally approve its long delayed pension's reform. Equity premium is still at very high levels and might fall further now that the country is finally converging toward more civilized and globalized interest rates. Entrepreneurs are starting to see equity markets and not BNDES as a viable financing option while millions of Brazilian access specialized financial boutiques and asset

management companies through fintechs that made distribution of investment products to the masses a possibility. All signs in Brazil are of an emerging boom, in this house's humble opinion. But, for sure, a very contrarian one, at least in a global context.

Just like international investors were euphoric about Brazil when Dilma got elected, with a now infamous Economist cover with Christ the redeemer statue taking flight, while Brazilians, used to the daily problems, traffic jams and complexities of the country were already pessimistic, now we suspect the contrary may be happening: Brazilians entrepreneurs are once again optimistic and only need a small push that may come from an economic improvement or lower interest rates to invest, while global investors are still in a wait and see approach. They may regret their cautiousness.

So to sum it up these seemingly disparate themes (and stepping back from the looking glass):

- We remain bulls in China, its long term development and its entrepreneurs in spite of the daily newspaper stories
- We will chase the most promising corners of the market and the not so expensive good companies, in an environment of ultra-low interest rates
- We are bullish in Brazil, like most local investors but unlike most global ones.
- We are cautious about the US markets and its current price level, especially its tech companies.

Our current portfolio that was discussed at length in our past letter reflects all of these tendencies, anxieties, idiosyncrasies and preferences. We hope that the sands of time may prove us at least partially right in most of these bets.

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About us

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Regulation



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

Administrator

