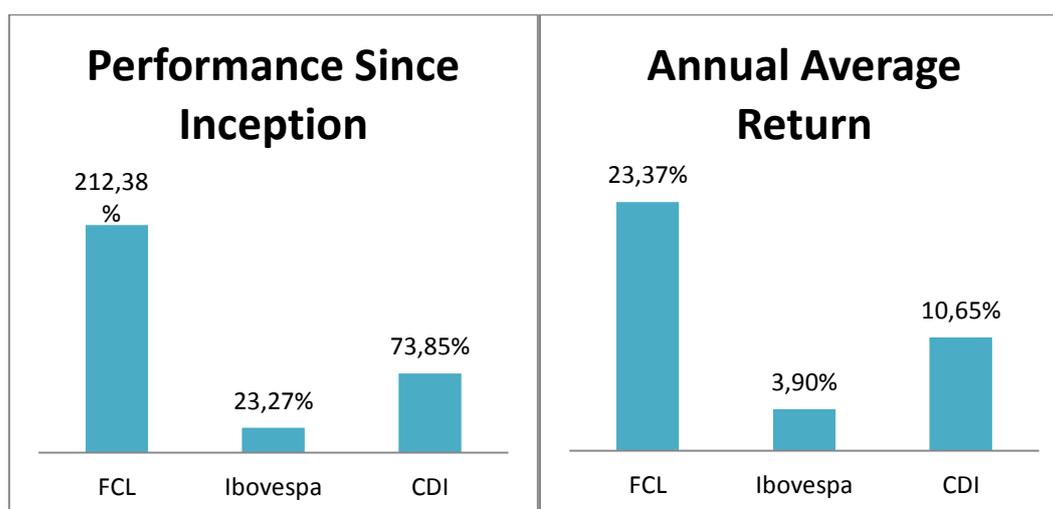


Tables and Graphics:

Quota Value in 31/08/2012: 3.12388428		
Net Worth: R\$ 12,343,366.57		
Performance	In R\$	In US\$
August 2012	3,55%	4,50%
Last 12 months	23,88%	-2,45%
Since Inception	212,38%	212,38%
Annual Average	23,37% a.a.	23,37% a.a.



Highlights

-FCL Capital's net asset value per share increases +3,56% in Brazilian reais (+4,50 in us dollars) during the month of august 2012;

-Our compounded annual return is situated in 23,38%;

-Over the last 12 months, our net increase per share was of +23,89%, to +1,00% of the Ibovespa index and +9,89% of the CDI.

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1 - Investment Outlook

Five years ago some funny things were happening with the financial markets. A few months earlier, the subprime indices of the supposedly impossible-to-go-down-in-value real estate market started to crumble. Then on August 9th 2007, a few BNP Paribas' investment funds stopped withdrawals since its assets couldn't be valued properly. The rest in history. Lehman brothers. AIG. The Housing crash. The great recession. Happy birthday. Five years passed us by so fast.

Everyone knows the past few years were not the happiest of times for most investors. Even ourselves, although we are proud to say that we tripled our investors' money in that turbulent period, we also endured more volatility than we had previously expected and had two negative years (2008 and 2011). We know it is all part of the process and our mission is to seize the opportunities presented in times of distress.

We were able to grab a few of those opportunities in these past years and that's the reason behind our performance. But if we take a hard look at the things that earned or lost money in this past half decade, we could surprise ourselves. Up on the top of this pyramid, of course, it is gold. The yellow metal's performance was +140% for this half decade. The closest thing to gold in the form of a paper currency was the Swiss government bonds. And even Uncle Sam with all the fiscal cliffs, the bipartisan gridlocks and etcetera didn't do bad: the accumulated performance of the US 10 year bond was +59%.



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If we examine the list further, commodities were up, stocks were mostly flat or down (except the dividend paying ones), and the overall feeling is clear: people were very nervous for these past few years. All they cared about was to avoid their losses instead of trying to make any return on their money at all. If we take a look at history, we can say this is an extreme situation, and in time, the prices should revert to the mean.

One common error most investors make when trying to measure returns is not to care about the starting points. For instance: many people know that the 2000-2009 decade was the first one in history when stocks decreased in value. What very few people think about is that more than the 2008 financial crisis, the real culprit was the 1999 bubble, due to it, stocks began the decade the most expensive they had ever been in history. Once again, reversion to the mean. So what could this insight tell us about the future?

The next decade (or half decade) won't be a walk on the park, but our gut feeling tells us that since as of now the risk aversion is so extreme and the search for any kind of yield so frenetic, good times are probably coming and it is a sensible idea to take more risk. We call this our qualified bet in the future. Let's do this exercise again in 2017 and see if we can once again be apart from most other equity investors or not. We hope we are not, after all, one more case of reversion to the mean.

2 – Performance

The net increase per share of FCL Capital investment club was of +3,56% in Brazilian reais (+4,50% in US dollars) in the month of August 2012. This performance compares favorably with the performances of the Ibovespa index (+1,71% in reais) and the Brazilian CDI (+0,68%). Since our inception, on April 3rd 2007, the increase in net asset value per share was of 212,38%, both in Brazilian reais and in US dollars, which has remained stable in comparison to Brazilian reais during this period.

As our long term readers know, our most important internal metric of performance, however, is the compounded annual return, since it captures our long term performance both in the good and the bad times. That being said, our compounded annual performance ended the month of August as 23,31%, once again both in US dollars as in Brazilian reais.

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We judge this performance satisfactory, and we are and always will be focused in maximizing the compounded return over very long periods of time, to get advantage of what Albert Einstein once called “the most astonishing mathematical discovery of all time”, since a person with, say, 20% annual returns can multiply his capital 100 times in a little over 25 years. The trick is not to have outstanding and terrible years, the trick is to be consistent, and that’s what we try to be at FCL.

So far, we think we are on track. The price we pay for this performance (there’s no free lunch as Milton Friedman once said) is that we face more volatility than some investors would stomach. We think it is a reasonable price to pay, but that’s a judgment call each investor has to make on his own.

3 - Catalan lessons for asset managers

In 1984, a young chef was put in charge of a mildly decadent restaurant in a small seaside village in Catalonia, Spain. The young chef’s idea was almost guaranteed to lead the restaurant to a fast closure: avoid any popular offerings, stick to small plates (or tapas) and try to mix art and gastronomy, a radical idea at the time. A few years later, the restaurant earned its second and then its third star in the Michelin Guide. Crowds started to gather and a pilgrimage from the gastro-fanatic from all over the world started to form.

The chef’s answer to that: to open only for dinner. But that was just the beginning: El Bulli, as the restaurant was known, rose to the top of the rankings of every specialized publication in the world. To this date it is the only restaurant in history to be awarded the world’s best in five different years. Soon, to book a table you had to call a year in advance or more. Then the restaurant decided to reduce the number of available tables, the chef decided to open for just a few months every year, and to spend the rest of the year travelling the world in search of new culinary ideas.

By then, if you were not a very important (or rich) person or a very close friend to the chef, you had no chance to get a table. But people kept trying, and those that succeeded were unanimous in saying that it really was the world’s best restaurant. After a while, the chef decided to close the restaurant once and for all. In other words, as the popularity increased, the availability decreased. Exactly the opposite of what we find in most asset managers,

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where franchise value is used to multiply the product range and go further away of what Charles Munger called “circle of competence”.

Eight thousand miles away from El Bulli, in California, a man named Steve Jobs reassumed a soon to be bankrupt Apple in 1997 and died presiding the world’s biggest company in 2011. The story is already legendary so we won’t go back to the details. But there is a coincidence between the El Bulli and Apple: Jobs didn’t try to find what people wanted from Apple. It was Apple’s job to find costumers that would buy what they had to offer. In other worlds, it was Apple’s job to have customers aligned with their philosophy, and not to try to replicate what the market was thinking.

With that in mind, Jobs reduced the number of products and decided to stick to his belief that everything had to be produced by the same company. Even though he was declared the loser of the war with Microsoft because of it, he kept his beliefs. He insisted to the point that it really looked stupid. Two decades after the “end of the Microsoft-Apple war” for some reason, Apple’s approach made technological sense again. And history books had to be rewritten.

We like these two stories because not unlike Ferran Adria and Steve Jobs we also think that one of the main competitive advantages of any company is to have a client base really aligned with what you are trying to offer. In FCL’s case, our mission is to be a very long term, aggressive, value obsessed, contrarian investor. So obviously we need a client base that thinks like us: low turnover, a focus on the big picture, deep understanding of the facts as opposed to the noise and of what everyone else is thinking. We are very grateful to have found this kind of investors, and yes, they do exist.

Looking back to the past five years, the level of redemptions we experienced during the turbulence of 2008 was one of the lowest of the industry. Specially in the still notoriously volatile markets of Brazil, where investors have an extreme volatile mindset. Then we made a series of contrarian calls that were very well accepted by our investors: our investment in Estácio (ESTC11:BZ), in a time when bad things were being said about the sector, our thesis about Marisa¹ (MARI3:BZ) when the market was in love with

1- You can read our full analysis on the company and our take on the relative value of Marisa as opposed to Renner in the aug08 letter

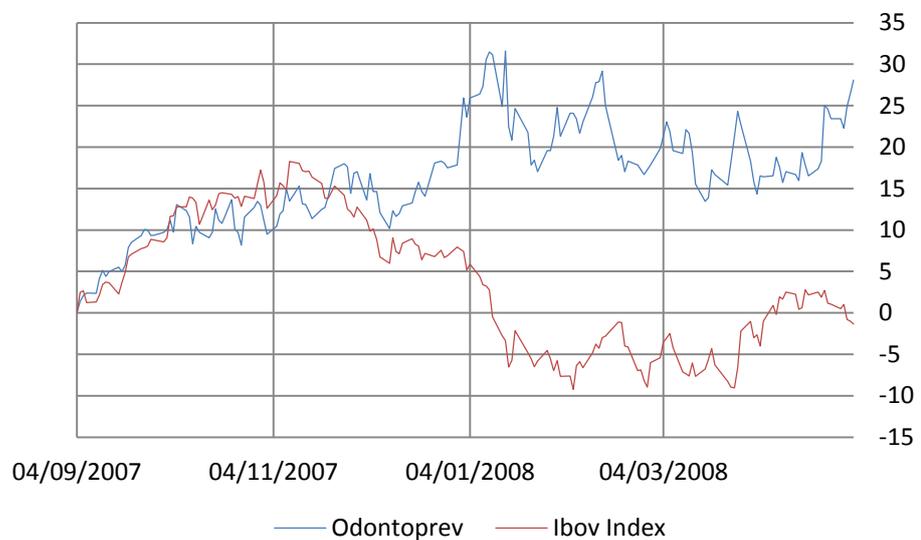
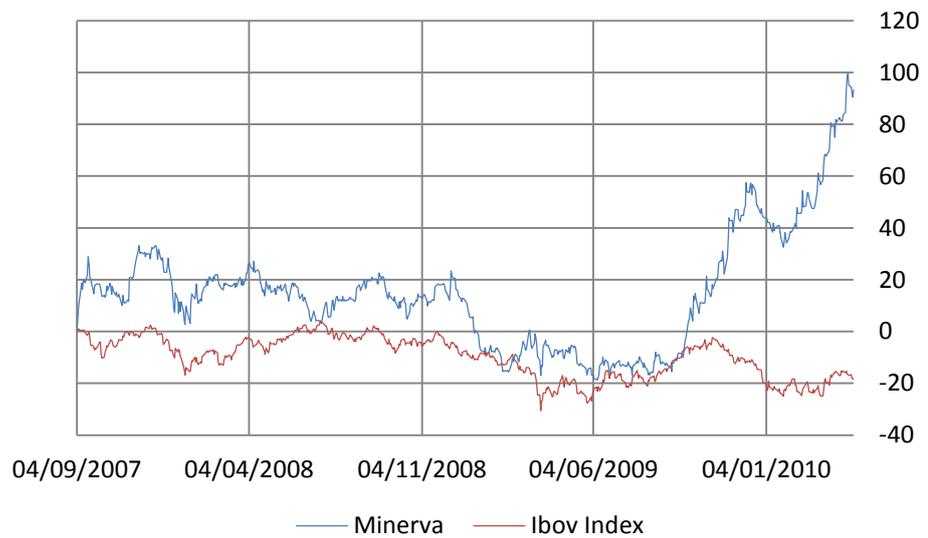
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Renner (LREN3:BZ) and more recently, and still our biggest position, our investment in Minerva (BEEF3:BZ). It also works the other way around, when we try to short stocks that are loved by just everyone, Odontoprev (ODPV3:BZ) being the actual example. Of course we will be wrong many times, but investing, unlike say medicine or engineering is an activity where you just have to be right most of the time.

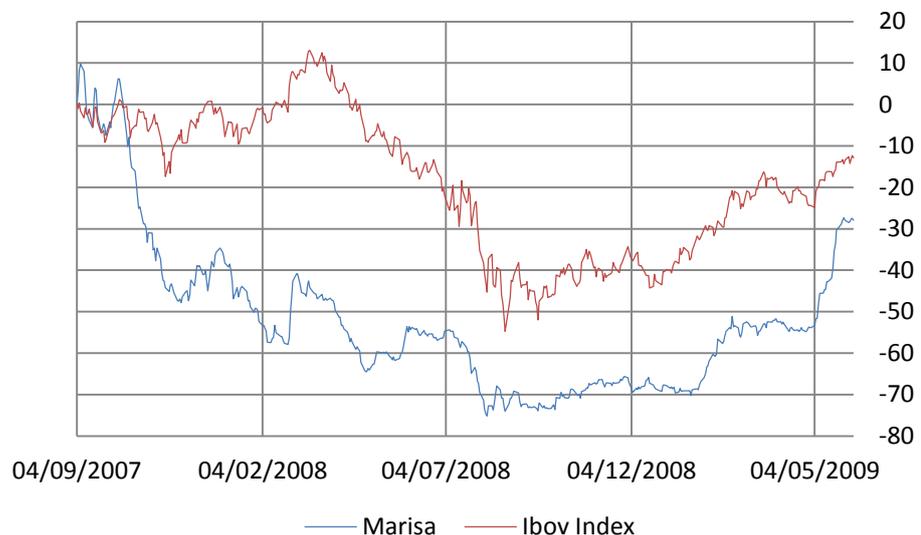
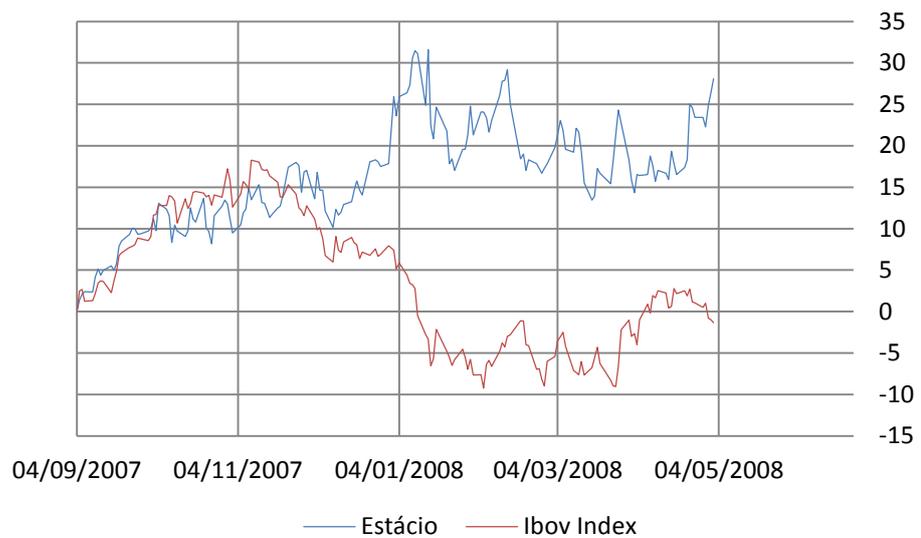


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In a not well developed market like the Brazilian, where analysts are quick to change their financial projection of a company depending if the stock is going up or down, it pays to be patient and try to be apart from the crowd. It does anywhere, but the payoff is even bigger when you invest in an emerging market, which is by definition more inefficient, and many investors don't realize it. We are not trying to compare ourselves to genius like Jobs and Adria, but merely using them as role models and we do want very much to keep that "family office mentality" as we call it, meaning that we do and always will see ourselves first as investors and just then as asset managers.

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About FCL Capital

FCL Capital is an independent investment company, focused on portfolio management, free from conflicts of interest and multiple objectives that has for a mission the preservation and multiplication of its investors' capital, through a thorough financial analysis. Our goal is to generate absolute returns, staying solid and consistent through good and bad periods of the economic cycle.