

FCL*Capital*

June | 2014

FCL Equities Performance	
June 2014	5.13%
2014 Year-To-Date	-13.15%
Last 12 Months	-5.00%
Since Fund's Inception	-8.71%
Since Club's Inception	164.13%
Annualized, Since Fund's Inception	-5.30%
Annualized, Since Club's Inception	14.30%

One of the reasons why FCL Equities is a fund best suited for long term investors is the irregularity of its payoffs: although we currently have a higher than usual degree of confidence in our fund's theses, we can't control or even predict the timing of when those theses will mature and the stocks we hold will converge to their true value. Sometimes the market is surprisingly fast to adjust and sometimes it takes years and moves in the opposite direction before converging. That's why we think it is so necessary to have independent thinking to be successful in investing.

In the past 12 months, especially in the first four months of 2014, the market seemed to disagree vehemently with most of our theses, and therefore our fund's performance has suffered. In fact, when judging only by our performance, our model almost seemed to be broken. While we kept our conviction in our analysis, we were clearly underperforming. In the past two months, also with no explanation behind it, the market seemed to agree with our worldview once again.

Short term performance is a distraction: we judge ourselves by the compounded annual return we achieve over the long term and by the percentage of our theses that were proven right (which is different than the percentage that were profitable). Over time, we have been right most often than not and think that our fund will keep delivering long term appreciation of capital. But, we will keep experiencing short term bumps and occasionally underperformance because this is the only way to achieve long term positive results with our strategy.

Since FCL Capital's Investment club inception, in April 3rd 2007, our shares have appreciated by 164.13% or 14.30% annually, comparing favorably with the Ibovespa index and the CDI. Not all of our investors were able to enjoy these gains however: those who entered after the conversion from club to fund are still experiencing an underperformance. Like we said, we can't predict when results will happen, but we have no reason to think our performance will be inferior to what we've shown in the past. FCL Equities was designed

for investors looking for attractive compounded annual returns and one of our main objectives is to deliver an average annual return upwards of 20% in most five year and ten year periods, which for most of our history we were able to provide.

In the past few years the asset management industry has become more predictable, institutionalized and we would even add: a bit duller. With predictable and customized returns in exchange for (a lack of) high payoff potentials. FCL keeps navigating against this current. Our idea is to deliver superior performance for investors who feel comfortable with longer term and more volatile payoffs.

A good example of what we do can be shown by the story behind our investment in one of our portfolio companies: Heringer. It is not the scope of this letter to dig deep into our framework and reasons for our investment in Heringer (we will do this in a future letter), but to show how the timing of payoffs can be erratic in our business.

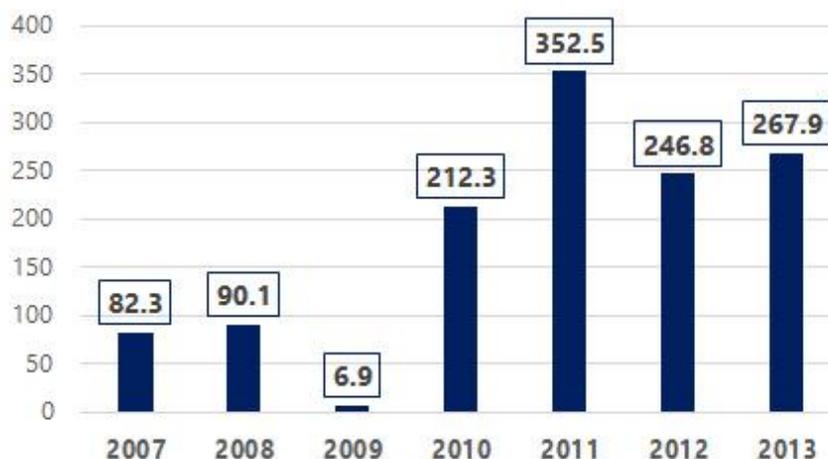
Heringer is a surprisingly unloved business: it mixes and distributes fertilizer products and solutions to thousands of Brazilian farmers in all corners of the country. Taken together, Heringer's market share is some 15% of the Brazilian fertilizer market. Brazil's share in the worldwide fertilizer market is surely poised to grow. The scale, price and efficiency of Brazilian agriculture are long well known.

However, the market has never really liked the company's prospects: it regards Heringer as a business that does not add a lot to the value chain of the fertilizer business and therefore one that deserves cheap multiples. The fact is that since its IPO in 2007, Heringer has had a tough time in the Bovespa.

Fertilizantes Heringer (FHER3) - 04/2007 to 06/2014



Heringer - EBITDA in the last 7 years (R\$ Millions)



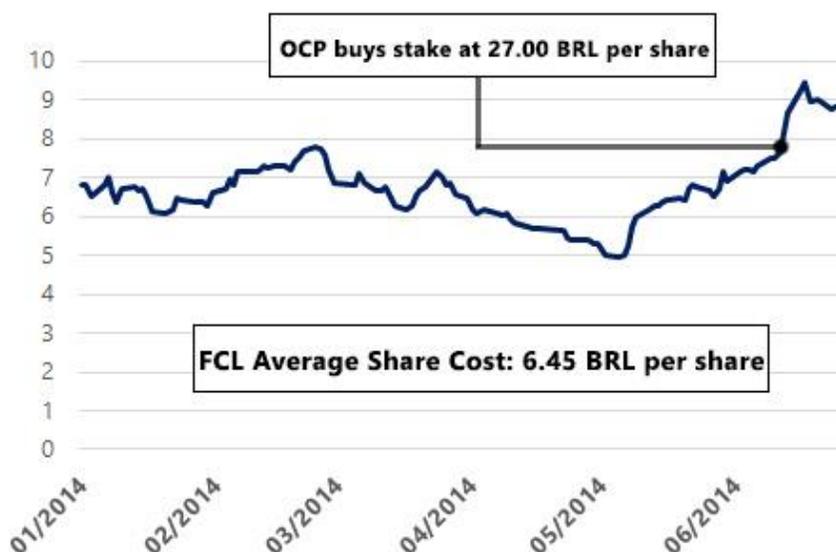
Throughout the years of 2011 and 2012 our team worked on a deep analysis of Heringer's business, competitors, clients and supply chain, including visits to farms far away from our headquarters in Rio de Janeiro. We investigated the changing dynamics of world NPK production (the three main fertilizer components) and were interested spectators in the end of Russian Uralkali cartel.

In the following years our fund started to build a position in the company while its shares kept dropping in the Bovespa. In early 2014, we were one of the main shareholders in Heringer and kept carrying our position confidently, based on the knowledge we were able to build and in our confidence in our analytical process.

Heringer's Shareholders By Size	
Família Heringer	67.76%
Deutsche Bank	6.66%
Kondor Gestora	2.72%
Caixa Econômica Federal	2.02%
Banco Daycoval	1.82%
Dimensional Fund Advisors	1.22%
FCL Capital	0.27%
Outros	17.53%

To date, our investment is still not a hugely profitable one, but a recent turn of events has given it once again a positive IRR: OCP international, a strategic fertilizer supplier to the company and a huge player in the industry entered an agreement to make a capital increase and to eventually hold a 10% stake in the company at a price of R\$ 27.00 per share, roughly five times the value they were trading at before the agreement.

Heringer - YTD Performance and OCP's Buy



The shares have subsequently appreciated considerably, although less than the increase in book value per share that the agreement gave to the company, according to our calculations. We think the company is more (and not less) undervalued after the agreement. We still hold all our shares and think this position could be a good case of how too much focus on avoiding volatility and seeking short term payoffs can prevent investors of eventually achieving amazing profit opportunities in the markets. Many things in life bring a hard tradeoff. Investing is one of them as it asks us the question: low returns or higher ones, although delivered in a longer term horizon and with a more erratic timing? We chose the second option.