

FCL*Capital*

June | 2017

Three months ago, in our first quarter letter we said that the second quarter would be a very special time, when for the first time both of our investment platforms, each one with a different investment value proposition, would be up and running. The good news is that both platforms had a good second quarter.

Our Brazil based low vol fund, FCL Hedge, had a performance of +1.85% net of fees and expenses, equivalent to 73% of the CDI appreciation in the quarter. In fact we maintained an overperformance throughout the quarter, but in the month of June the political turmoil brought losses in our equities book and as well as in our long term fixed income positions that were marked to market. That being said, we do think the fund proved its resiliency, delivering not only a positive performance but also one close to the CDI in a very volatile quarter.

Over the long term, we are confident that FCL Hedge will not only significantly outperform the Brazilian CDI but do so with very little volatility.

FCL Opportunities had a remarkable performance of +8.10% in Brazilian Real and +2.48% in US Dollars this quarter. The dollar performance was impacted by the appreciation of the US currency against most peers this year so far but even so we judge FCL Opportunities had a very auspicious start to its life.

Chart 1:

FCL Hedge Second Quarter of 2017	1.85%
CDI Second Quarter	2.54%
% of CDI	73%

Chart 2:

FCL Opportunities BRL - Second Quarter 2017	8.10%
FCL Opportunities USD -Second Quarter 2017	2.48%
US CPI (past 12 months):	1.76%
Ibovespa BRL - Second Quarter 2017	-3.21%
Ibovespa USD - Second Quarter 2017	-8.40%

Chart 3: FCL Hedge Portfolio 31/03/2017

Top Positions	% Fund's total Net Asst Value	Country
Operações Compromissadas	33.31%	Brazil
Brasken	9.94%	Brazil
LFT 2022	8.61%	Brazil
LFT 2023	8.61%	Brazil
NTNB 50	8.41%	Brazil
Fibria	8.08%	Brazil
Minerva	5.38%	Brazil
Comgas	4.63%	Brazil
ETFS Cocoa	3.14%	UK
Gannett	2.64%	USA
IWG PLC	2.52%	UK
BOVA 11 ETF	1.87%	Brazil
Ebay	1.06%	USA
Dufry	0.96%	Switzerland

Chart 4: FCL Hedge Portfolio 30/06/2017

Top Positions	% Valor Patrimonial Líquido Total do Fundo	País
Operações Compromissadas	40.19%	Brasil
LFT 2022	8.13%	Brasil
LFT 2023	8.13%	Brasil
Brasken	7.96%	Brasil
NTNB 50	7.35%	Brasil
NTNB 22	4.83%	Brasil
NTNB 24	4.59%	Brasil
Comgas	4.22%	Brasil
Taesa	4.02%	Brasil
ETFS Cocoa	2.72%	Reino Unido
Gannett	2.63%	EUA
IWG PLC	2.54%	Reino Unido
Cash US Dollar	1.99%	Brasil
Ebay	1.05%	EUA
Long in Platinum	0.03%	Brasil
Short in Palladium	-0.01%	Brasil

Chart 5: Portfolio FCL Opportunities 31/03/2017

Top Positions	% Fund's total Net Asst Value	Country
Gannett	11.76%	USA
IWG PLC	11.01%	UK
Dufry	10.04%	Switzerland
Brasken	8.94%	Brazil
Match Group	9.31%	USA
Pandora	8.28%	Denmark
Minerva	7.89%	Brazil
Fibria	7.86%	Brazil
Fixed Income	5.80%	Brazil
Fogo de Chao	1.43%	USA
Anta Sports	< 1%	China/Hong Kong

Chart 6: Portfolio FCL Opportunities 30/06/2017

Top Positions	% Fund's total Net Asst Value	Country
Gannett	12.11%	USA
IWG PLC	11.49%	UK/Switzerland
Dufry	10.67%	Switzerland
Brasken	10.48%	Brazil
Match Group	9.81%	USA
Pandora	8.90%	Denmark
Fibria	8.73%	Brazil
Anta Sports	7.89%	China/Hong Kong
Fogo de Chao	6.94%	USA
FCL Hedge	2.90%	Brazil
Minerva	2.85%	Brazil
Fixed Income	2.76%	Brazil
Cash US Dollar	1.82%	USA
Ebay	1.52%	USA
Fibria	1.32%	USA

Our top positions in FCL Hedge were related to our belief that over the long term Brazil's interest rate trajectory will gradually become more similar to other countries and the country's real interest rates will come down and converge to the ones experienced in other emerging markets. Brazilian Central Bank's decision to finally start lowering the country's target inflation was a good step in that direction.

The fund also has some opportunistic tactical positions, including one Platinum/Palladium long short position due to our belief that the current prices near parity for the two metals are not sustainable.

Our top positions in FCL Opportunities were mostly discussed in our previous letters, including Anta (theme of our May 2017 letter) and Gannett (discussed in our February 2017 letter). Opportunities maintains a very unique investment proposal and we think it is a very interesting vehicle for Brazilian investors desiring to allocate their resources way from the country's turmoil and hedge against the risks in the Brazilian markets with a vehicle of very little correlation with the Brazilian economy and political situation. While at the same time, Opportunities is also an interesting vehicle for international investors willing to gain access to an emerging market centric, BRIC focused perspective of value investing. We think the fund's results this past quarter show we are on the right path.

Finally an exciting new development: FCL proudly launched its brand new website, where our investors can read about the company's history, see details about its two investment platforms (FCL Hedge and FCL Opportunities), read our presentations and, most importantly, read all our Monthly Letters dating back to 2012, which we still think are the best way to gain insights about our perspective when it comes to investing.

We wouldn't have reached this point if it were not for your support. Once again we thank each one of you and wish you all a great second half of 2017.

FCL Team

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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