

# FCL*Capital*

September 2018

## Performance

FCL Hedge	
Year to Date	-1,96%
Last 12 months	0,02%
Last 12 months % CDI	0,003%
Ibovespa last 12 months	6,80%
Since inception	125,87%
Annualized since inception	7,34%

FCL Opportunities	
Year to Date in USD	-5,89%
Year to Date in BRL	14,25%
US CPI last 12 months	2,70%
S&P 500 last 12 months	15,66%
MSCI All World Index last 12 months	7,68%
Acummulated since inception, in BRL	46,84%
Acumulated, since Inception, in USD	13,78%
Annualized, since inception, in USD	8,01%

Our main Fund, FCL Opportunities, appreciated 14,25% in Brazilian real in the first three quarters of 2018. In US dollars, our shares decreased 5,89%.

As we stated to our investors, there are two things that as a general rule and everything else constant, can be expected from our fund: 1) In moments of depreciation of the Brazilian currency, our fund will perform exceptionally well, since we are a global fund and most of our positions are outside Brazil, and 2) In moments of a dollar rally, when the US currency rises against everything, like the Euro, the Brazilian real, the Chinese renminbi, etc., our fund will perform poorly in US dollars, since we invest in companies everywhere and especially in emerging markets

and the Euro, the renminbi and other currencies where our companies are listed will be depreciating against the US dollar.

Both of those things are true so far this year: a strong performance in Brazilian real and a poor performance in US dollars.

That said, our fund's main goal is long term performance and compounding in US dollars. Since our inception, in January 31st, 2017, our fund returned + 13,78% in US dollars and + 46,84% in Brazilian real. This performance translates into an annual return of +8,01% in US dollars since our fund's launch, a performance that we deem far superior to most other types of investments available to Brazilian individuals, like US corporate and government bonds, stocks, etc.



FCL Opportunities (blue), S&P500, Ibovespa, Brazilian CDI, in US Dollars, since inception

Our FCL Hedge fund is having a poor year so far: it is basically stable over the past 12 months and declining 1,96% so far in 2018.

The good news: in our past monthly letters we have been stating our pessimism with global equity markets, especially the US equity markets. In our June 2018 letter, we wrote:

*So, for an interesting twist, unlike this past year we are more optimistic about domestic prospects than global ones. On a global level, like we said in our march letter, we think moments of synchronized global growth with no inflation are rare. We see many troubles ahead, from higher interest rates across the developed world to trade friction that can undermine consumer confidence.*

The interesting news: we haven't changed our general view of global equity markets. This past quarter we became even more bullish over the long-term prospects of emerging markets, especially China and Asia, and more bearish in US equity markets. Timing, as everyone knows is a different and difficult subject.

But what changed is our own conviction in our ideas: speaking for both of our funds we feel with the recent mild declines in both funds (both around 5-10% off their all-time highs) this is a great entry point: we couldn't be happier with the ideas we are invested in and will discuss in length some of them in future letters.

Overall if there is one positive, is the fact that this house's own confidence level in its portfolios increased substantially this past few months.

## FCL Hedge Portfolio 30/09/2018

Biggest Positions	Fund's Total Net Asset Value %	Country
Operações Compromissadas	31,64%	Brazil
LFT 2022	7,18%	Brazil
LFT 2023	7,18%	Brazil
Estácio	6,46%	Brazil
NTNB 50	5,87%	Brazil
Minerva	5,55%	Brazil
Fleury	5,51%	Brazil
Braskem PNA	4,32%	Brazil
NTNB 22	4,05%	Brazil
NTNB 24	3,78%	Brazil
Tupy	2,99%	Brazil
Indice Materiais	1,33%	Brazil
Log In Logistica	1,18%	Brazil

## FCL Opportunities Portfolio 30/09/2018

Biggest Positions	Fund's Total Net Asset Value %	Country
Match Group	9,80%	USA
YY	9,06%	China
Anta Sports	8,64%	China/Hong Kong
Gannett	8,23%	USA
Dufry	7,82%	Switzerland
Braskem	5,38%	Brazil
Xiabu Xiabu	5,38%	China
Fleury	5,11%	Brazil
Sogou	5,03%	China
Minerva	4,50%	Brazil
Estácio	4,49%	Brazil
Yatra Online	4,05%	India
Pandora	3,75%	Denmark
Fu Shou Yuan	3,35%	China
VTB Bank	3,24%	Russia
TTM	3,08%	USA
Fixed Income	2,94%	Brazil
Vipshop	2,87%	China
FCL Hedge	1,98%	Brazil
Log In	1,39%	Brazil

A few things can be deduced from our positions snapshot since our last update 3 months ago:

- a) We increased our equities exposure in our domestic portfolio in FCL Hedge, taking advantage of investors nervousness with the electoral scenario. It is important to note: this is not a specific bet in any electoral outcome. This is not inside the circle of competence of this house. Instead, it is the gradual building of long-term positions that were selling at attractive prices thanks to the electoral volatility.
- b) We eliminated our position in IWG, concerned with competition from Wework and other providers and also with some disagreements and doubts about the company's strategic decisions and corporate governance. Specifically, the company rejected interesting takeover proposals we feel deserved more merit. We are also unsure about the founder and CEO's long term ambitions for the company and for himself. So, we decided to take advantage of a spike in prices due to a (now rejected) takeover offer and sell.
- c) We have been increasing our exposure in Chinese companies, especially YY, Anta (already the subject of some of our past letters), and, a newer position, Sogou.
- d) As in our FCL Hedge fund, we increased our Brazilian stocks exposure, especially through Minerva, Fleury and Estacio. Not due to a specific prediction about the Brazilian election process but because we felt that the level of stock prices of some high-quality Brazilian companies in strategic sectors, like Fleury and Estacio, offered enticing entry prices with the current pessimism.

As for the remaining of the year, like we stated before, this house thinks its current portfolios, both for our global and Brazilian funds are among the best we ever assembled: a collection of low risk and potentially very

rewarding ideas. But as always timing is hard to predict: these ideas could flourish very soon, or we could endure more quarters of underperformance until – boom – outstanding price movements – or not.

As always, we thank our investors for entrusting us with their capital, their partnership, their trust. We wish a great final quarter of 2018 for our partnership and for each one of you.

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](http://www.fclcapital.com).

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