

FCL *Capital*



JUNE 2019

MONTHLY
LETTER

Performance the first half

Our results

FCL Hedge

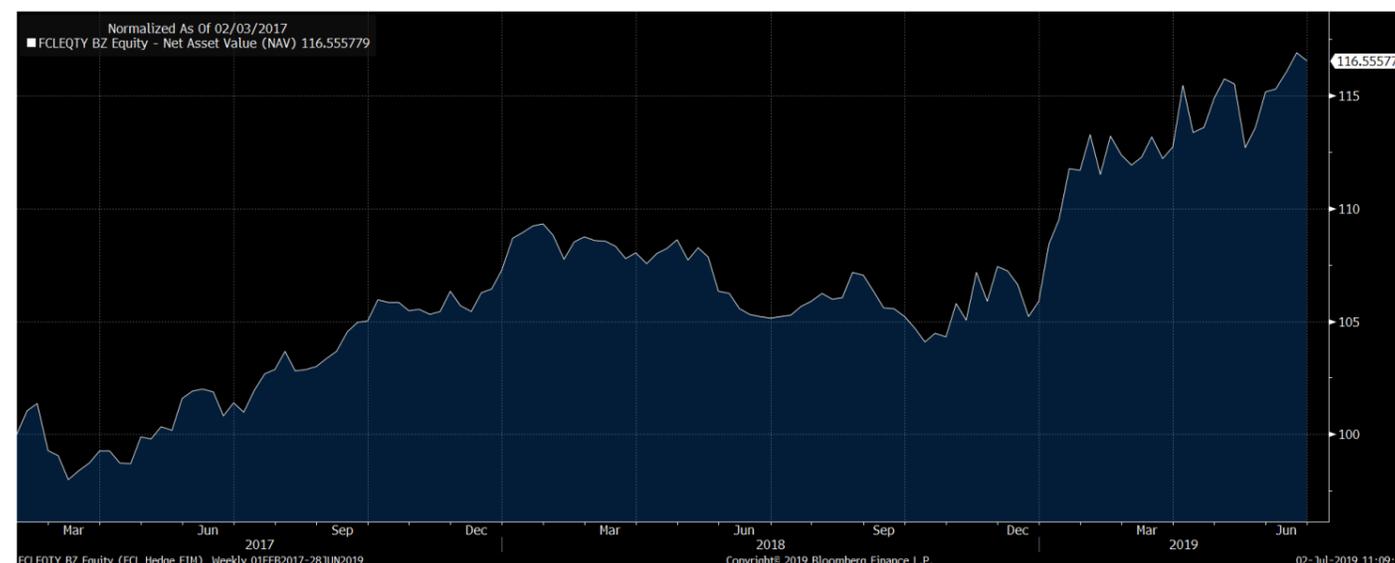
Inception date:	01/02/2017
FCL Hedge, first semester 2019:	10,10%
FCL Hedge, last 12 months:	10,89%
FCL Hedge, last 12 months % CDI:	172,58%
Annualized since inception:	6,66%

FCL Opportunities

Inception date:	01/30/2017
FCL Opportunities, first semester 2019, in USD:	+23,77%
FCL Opportunities, first semester 2019, in BRL:	+22,24%
US CPI, last 12 months:	+1,78%
MSCI ALL Country Index, first semester, USD:	+15,64%
MSCI All Country Index, accumulated since 01/30/2017, in USD:	+21,62%

Both strategies performed very well in the first semester. FCL Hedge gained 10,89% in the past 12 months, against 6,31% of the performing 172,58% of its benchmark.

The fund's performance was helped in the past 12 months by positions in Brazilian equities and the Brazilian index. Since it adopted its new strategy in 2017, FCL Hedge has an annualized performance of +6,66%.



FCL Equity 2017

As for FCL Opportunities, the fund has a great first half of the year, once again confirming the belief this house has that over time, a long term oriented, research intensive and disciplined equity fund focused in small and medium cap names exposed to the BRIC countries will be one of the most profitable asset classes in financial markets, if not the most profitable one in the next few decades.

FCL Opportunities gained 23,77% in US Dollars in the first half of 2019 and 22,24 in Brazilian real. Since its inception in January 31st, 2017, our fund has gained almost 30% in USD and more than 50% in Brazilian real. Over time, since there is inflation difference between the USA and Brazil, the performance will be higher in BRL than USD, but our fund is designed to offer long term compounding in USD.

In the first semester, the biggest beneficiaries to our performance were Match Group, Minerva and YY, all of which we discussed about and published specific thesis stating the reasons they are in our portfolio in our past letters. The biggest performance detractors were Dufry, Braskem and Xiabuxiabu.



Performance, first semester 2019(BRL):

FCL Opportunities, (blue): +22,24%

S&P500 (purple): +19,06%

Ibovespa: + 14,50%

MSCI All Country Index: +16,20%

Portfolio our positions

FCL Hedge Portfolio 06/30/2019

Biggest Positions	Fund's Total Net Asset Value %	Country
Repo operations	17,55%%	Brazil
Ibovespa	13,21%	Brazil
NTNB 50	10,40%	Brazil
Minerva	10,09%	Brazil
LFT 2022	9,23%	Brazil
LFT 2023	9,23%	Brazil
Estácio	9,20%	Brazil
Fleury	7,74%	Brazil
NTNB 22	5,57%	Brazil
NTNB 24	5,42%	Brazil
Suzano S.A	2,98%	Brazil
Brazil Materials Index ETF (Imat ETF)	1,45%	Brazil

As for FCL Hedge, the main changes in our portfolio this past semester were:

- A considerable decrease in our positions at the shorter end of the Brazilian fixed income spectrum (Notas compromissadas), and consequent increase in Brazilian equity positions, reflecting the increasing optimism this house feels towards the Brazilian stock exchange and Brazilian economy over the medium term in general
- The sizable profits our positions enjoyed at the longer end of the fixed income curve, especially NTNBs maturing in 2022,2024 and 2050.

For the remaining part of the year, we should keep a tactical position in the Brazilian stock index that may change to positions in different subsectors, like the Materials sub index, depending on the situation and careful data reading.

FCL Opportunities Portfolio 06/30/2019

Biggest Positions	Fund's Total Net Asset Value %	Country
Anta Sports	13,68%	China/Hong Kong
Match Group	10,06%	USA
YY	10,42%	China
VTB Bank	9,41%	Russia
Minerva	6,71%	Brazil
Dufry	5,90%	Switzerland
Estácio	5,08%	Brazil
CTRIP	4,60%	China
Vipshop	4,09%	China

Biggest Positions	Fund's Total Net Asset Value %	Country
Phosagro	3,92%	Russia
Fleury	3,47%	Brazil
XPO	2,88%	USA
Xiabuxiabu	2,71%	China
Suzano	2,55%	Brazil
Fu Shou Yuan	2,18%	China
FCL Hedge	2,02%	Brazil
Yatra Online	1,86%	India
Other positions (JNBY, Samsonite,)	1,08%	Varied
Fixed Income	1,06%	Brazil

For our flagship fund, FCL Opportunities, the main changes in our portfolio this semester were:

- Reduction in our US positions following a record bull market in American markets. While we remain optimistic regarding Match, which was discussed in length in past letters, we feel recent prices decrease our margin of safety and leave little room for execution errors. That being said, we remain confident in the company's success.
- Increase in specific Brazilian positions for the reasons we mentioned above Estácio and Fleury were discussed in recent letters over the past year.

- Our first ever Russian investments through VTB, by many measures one of the cheapest financial stocks globally and Phosagro, one the world's leaders in phosphate production.
- -A portfolio in transition towards fewer, more concentrated bets in Brazilian and Chinese companies specifically, with occasional BRIC-related American companies thrown in the mix.

Some investors have approached us wanting a greater opening of our FCL Opportunities portfolio towards sectors, currencies and countries. A brief summary follows.

FCL Opportunities Portfolio 06/30/2019

3 largest exposures by sector:

Sector	Size %
Internet & technology:	31,03%
Services:	23,02%
Consumer & retail:	22,29%
Other sectors: (natural resources/agribusiness, finance etc):	23,66%

3 largest exposures by country:

Country	Size %
China/Hong Kong:	37,68%
Brazil:	20,89%
USA:	13,86%
Other countries: (Russia, India, Switzerland, Eurozone):	27,57%

3 largest exposures by functional currency of portfolio companies:

Country	Size %
Yuan/Renmimbi :	37,68%
US Dollar:	24,17%
Brazilian Real:	17,81%
Other currencies: (Euro, Swiss franc, Indian Rupee, Russian rouble):	20,34%

A discussion on FCL Opportunities Benchmarks

Since the launch of our flagship fund, FCL Opportunities, in early 2017, some investors have raised the issue of what should be a proper benchmark for the fund. In other words, against what should we be compared?

This house will use this letter to give some thought on the subject.

First of all, admittedly, it is not an easy problem. We are a global equity fund, and as our investors can infer from section 2, our fund has exposure to a range of countries and currencies.

That being said since our early days we have been consistently saying that internally we judge ourselves in terms of long term compounded annual returns in US dollars. Why dollars? Simply because it is (still) the world's most important currency (crypto might someday change that) and since many international equity funds benchmark themselves and publish their performance in US dollars, it seems reasonable that a global fund like ours should do the same.

Indeed, FCL Opportunities views itself as a cousin to private equity funds, with a long term horizon and a holding company mentality - buying stakes in different business to hold them over the long term- with the only particularity being that the business we invest in happen to be quoted in stock exchanges around the world.

That is the reason FCL Opportunities adopted a similar benchmark to many private equity funds: the US CPI in dollars with a 2,5% annual hurdle rate added on top. This means we view ourselves as an absolute return product meant to deliver long term consistent performance and not too preoccupied with a specific benchmark in itself.

In other words, more important than beating, say, the S&P500 is delivering high US dollar returns compounded over the long term.

That being said, some investors still raise the issue that while it is fine that we view ourselves as an absolute return product and that this is our fund's benchmark, our performance should also be measured against a proper and useful equity benchmark. We are an equity fund after all and what would be a tradable and investable index capable of offering risk and return characteristics that at least resemble our Opportunities fund?

First of all, let's begin with some obvious exclusions: being a global equity fund with a basket of markets, ideas and currencies, it is clear that the Ibovespa index is no valid benchmark for us. Our Opportunities fund is simply not that intrinsically related to Brazil and that's exactly as our investors- including ourselves- like it. We might and will buy specific Brazilian businesses and ideas- but we are not investing in Brazil per se.

Next, the S&P500 should also be excluded as any national stock index. Having the flexibility to jump borders and being a global fund in nature makes the comparison with any national index unfair and useless.

After some research, soul search and long hours testing correlation matrixes on Bloomberg terminals and other software providers, our conclusion is that the closest global benchmark index to our fund is the MSCI All Country World Index. This index;

- 1) Is global in nature
- 2) Has decent Asia and Emerging markets exposure
- 3) Also is exposed to different caps, currencies and geographies like our fund

The main differences between FCL Opportunities and the MSCI All country index:

- 1) FCL Opportunities tends to invest in Smaller caps than the MSCI
- 2) FCL Opportunities focused in just a few selected countries: The BRICs and specific American and European companies related to them. Also we are more concentrated in terms of companies and sectors than the index.

We feel very happy about both differences. Ample academic evidence supports the notion that over the long term small caps outperform larger caps, meaning our fund should enjoy extra returns because of this factor. As for difference 2, edge has always been a cornerstone concept for us and playing just a few selected markets is our way of diverging from consensus with confidence and trying to deliver Alpha.

Finally, a correlation Matrix shows that indeed, our fund has more correlation with the MSCI All Country Index than any other global index fund. In the case of the Ibovespa index our correlation was indeed negative, probably because of exchange rate fluctuations in times of volatility in Brazilian markets providing our Opportunities fund with a shock absorber and therefore making us enjoy lower volatility than most Brazilian equity funds:

Correlation, June 2019 (source: Bloomberg)

FCL Oppotunities X Ibovespa :	-0,17
FCL Opportunities X US DOLLAR:	0,21
FCL Opportunities X CSI300 China:	0,59
FCL Opportunities X S&P500:	0,78
FCL Opportunities X MSCI ALL Country Index:	0,81

Institutional evolution

A discussion on asset base and distributors

To close our second quarter letter, we would like to bring a discussion on access to our products and our funds asset base.

Since our early days we discussed in this space that we view an aligned investor's base, with a long term orientation and deep understanding of a fund's strategy an investors competitive advantage. Indeed, we even dared to say in this space that we think part of Warren Buffet's genius comes from the fact he never had to face redemptions and only needed to worry about the very long term - as opposed to quarterly, monthly or daily- results of his portfolio.

Therefore, we always stated and remain committed to the plan that the increase in our fund's AUM will always be gradual, because we are a performance oriented-as opposed to asset oriented- house.

With that said, it is undeniable that the Brazilian market has experienced an intense evolution over the past few years, with distribution platforms- like XP, Orama and HUB- bringing the best and most sophisticated investment partnerships to a much wider range of investors.

With all the problems and dangers this might cause, this house thinks such a development should be celebrated. Besides, we will never relinquish from our task of trying to educate our investor's base, making them feel as partners and on board and doing all we can for our investors to understand our mission and what we are trying to accomplish.

Therefore, this past quarter this house for the first time decided to list its funds in some selected platforms, signing contracts with HUB and Orama with a few more distributors probably on the way. This news should make significantly easier for many investors to access our funds. With this new channel, we also plan to lower our minimum initial commitment for both funds, since our partners will handle all the legal work and logistics with those new investors.

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About us

FCL Capital is an asset management company based in Rio de Janeiro, whose objective is to maximize the returns on investments of our clients. FCL has as its main but non-exclusive niche, investments in public equity companies listed on the stock exchange (long and short positions, bought and sold in stock markets). To know more about our work, please contact us or visit our website: www.fclcapital.com

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