STUDIO
investimentos

Quarterly Letter - 4Q12

In this letter, as has been customary over the past two years, we will address the key investment cases affecting our fund's performance in 2012. We will also use the opportunity afforded by this publication to update you on our developments and the closure of Studio FIC FIA.

Studio Investimentos

As announced in last year's letter, in 2011 we recruited two analysts to strengthen our management team. In the last quarter of 2012, an additional analyst joined our now seven-strong group of investment professionals dedicated to the coverage of Brazilian-listed companies and managing Studio's portfolio. Welcome to the team, Raphael Rodrigues.

At year-end 2012, Studio FIC FIA's asset value reached the R$ 350 million cap set for closure of the fund to further investments. It has always been our belief that in order to optimize performance through our philosophy and investment process we must ensure our clients and partners understand the horizon of our strategy and that their investments with Studio are well proportioned.

To enhance Studio's continued growth at no loss of flexibility in building and liquidating positions, we are pursuing a strategy of capping the fund's assets under management, with a 10-day grace period, and creating a new fund, with redemption proceeds payable within 30 days. It is important to note that Studio partner's investments will experience reduced liquidity upon migrating to the new open vehicle.

We are currently completing the procedural requirements for establishing a new fund, Studio 30 FIC FIA, which will maintain the strategy Studio has pursued since inception. We will continue to publish daily updates on the performance of Studio FIC FIA on our website.

You will receive an e-mail notice when the fund inception date has been established, and we will be happy to discuss with each of you any remaining questions you may have.

After shortly more than 3 years, Studio's total assets under management totaled R$ 536 million at year-end 2012, with investments from more than 500 clients. Since inception on November 25, 2009, Studio FIC FIA has generated a cumulative 58.4% return versus Ibovespa's 10.3% decline.

Performance

As detailed in the chart on the last page of this letter, Studio FIC FIA returned 18.99% in 2012 against 7.4% of the Ibovespa.

The following paragraphs highlight the 3 (three) positions most positively and most negatively contributing to the fund's performance in 2012.

Mahle Metal Leve

The greatest contribution to performance in 2012 derived from our investment in Mahle Metal Leve. We initiated our investment in October 2010 with a small holding. The company had announced a corporate reorganization plan that would be concluded in July 2011 with a secondary offering and its accession to the *Novo Mercado*. This would increase share liquidity and consequently the interest of analysts and investors. Also contributing to our decision was our long-standing knowledge of this company. The company's precursor, Metal Leve, sold a controlling interest to the German group Mahle in 1996.

We also relied on the knowledge of our partner Gabriel Stoliar – who has chaired the Board of Directors of Fundição Tupy for the past three years – to further cement our views on Mahle Metal Leve. Fundição Tupy is a supplier of engine blocks and heads, which means its product range is complementary to, and shares certain common clients with, Mahle's range. The feedback we received on the German parent was extremely positive. The company has always invested heavily in R&D (Research & Development) and has built a good international reputation in its respective markets. The parts the company manufactures have low unit prices, but are crucial to proper engine operation. An engine recall due to nonconforming parts is extremely costly to vehicle manufacturers, which ensures client loyalty and helps translate the company's reputation into good returns on capital. Even before its acquisition by Mahle, Metal Leve already had a very notable track record of R&D investment. Over the years the Brazilian company worked to raise barriers to new entrants by adapting to the peculiarities of the Brazilian auto market. A prominent example was their development of parts engineered with the strength to operate efficiently with any combination of gasoline and ethanol in the fuel mix, as the Brazilian market moved toward a strong presence of flex fuel engines.

Brazil's loss of industrial competitiveness in 2011, with the over strengthening of the Brazilian Real at its peak and vehicle imports increasing, created strong investor aversion to Brazilian industrial stocks. This enabled us to build a substantial holding for the fund at very attractive prices. During its follow-on offering, the company committed to pay out all surplus cash as dividends which, based on our conservative assumptions, would provide an attractive dividend yield of 12% in 2011 and growing thereafter.

In 2012, following strong share appreciation in 2011, the company's diversified revenues helped mitigate the effects of the steep downturn in Brazil's automotive market, especially the truck market, in which the company has a major presence. With revenues well distributed among *OEM*-Brazil (39% of revenues in 2011), Aftermarket-Brazil (24% in 2011) and Exports (37% in 2011), the company successfully shifted its production capacity from underperforming markets like Europe and Brazil (trucks) to higher performing markets such as the US and Brazil's aftermarket, which is structurally more resilient.

In addition, the weakening of the Brazilian Real, the higher prices on cross-border sales (which had previously been extremely depressed) in 2012 and government initiatives to bolster the industry (such as by reducing payroll charges as from August 2012) helped improve results for 2012 and should continue to drive improved profits in 2013. Early in 2012, the Brazilian Government launched a new incentive program for the automotive industry known as Inovar-Auto, which aims, among other things, to increase vehicle fuel efficiency by 2017. The company is well-positioned to work with its clients to develop new and more efficient engines in Brazil using higher value-added components. The positive impact of this incentive program on the company is likely to be felt from 2014.

With Brazil's interest rates experiencing significant retraction, especially during the first half of the year, the company's commitment to pay substantial dividends has also proved highly attractive to investors.

As a result, the company's stock, which had already risen 10.3% in 2011 following the share offering, appreciated a further 86.3% in 2012. This reduced our margin of safety and led us to divest from the company early in 2013.

Arteris (OHL Brasil)

The second most positive contributor to fund performance in 2012 was Arteris (formerly OHL Brasil). We established a position in this company in January expecting to see a reduction in the perceived risk of allocating additional capital to new toll road concession contracts.

OHL Brasil was born out of the business diversification plans of the Spanish-based construction company Laín, which would later merge with peer construction firm Obrascón Huarte to form OHL. The company established a presence in Brazil in 1998 by acquiring minority stakes in São Paulo State toll road concessions and later growing their stakes to controlling interests. In 2007, OHL secured 5 of the 7 Federal toll road concession contracts offered that year, though its bids were considered overly aggressive.

A key aspect of business growth through new contracts is that the returns put forward by the Government in its calls for bids often differ from actual returns because they are generally based on outdated traffic and/or CAPEX studies. This was the case in the Federal toll road auctions of 2007. Aggressive assumptions led to significant discounts on fare caps, for which the market punished the company's stock. To make matters worse, projects were delayed by environmental permitting and design rework. Differences between planned and actual investment timing are inherent to this industry, even for companies regarded as benchmarks. This can be attributed to a number of reasons, primary of which is bureaucracy in negotiations and securing permits. The adverse effects on Arteris, however, were augmented by the fact that their investment plans largely consisted of roads with a legacy of very poor quality, and that they were more vocal in announcing delays. Today, traffic figures are exceeding the company's original expectations and environmental permits are finally being secured, such as the permit for the duplication of the Serra do Cafezal section of Regis Bittencourt Highway, obtained in December 2012.

The toll road industry precludes any relevant valuation using multiples due to the different maturities of each asset portfolio. We instead look at the internal rate of return in the share price, i.e. the discount rate that equates the cash flows to shareholders for the remaining terms of their contracts to the company's market value at the time of investment. When we established our holding in Arteris, the company offered a real IRR to shareholders considerably higher than that observed for other players due to its recent history and concerns relating to new contracts. We believed such a high discount rate was not warranted and that part of the apprehensions over aggressive bidding would subside over time.

The company's approach to the year's first auction, for BR-101 in Espirito Santo, was reassuring. The company bid for the concession with a discount of 15.82% on the fare cap, and was outbid by a publicly traded player offering a discount of 45.63%. Then came the contracts offered for the airports of Guarulhos, Viracopos and Brasilia. Arteris bid for all three, reaching the final open-outcry dispute over the Brasilia Airport contract with Engevix. Upon reaching the limit imposed by its controlling shareholders, the company withdrew empty-handed. This demonstrated the group's use of sound economic and financial reasoning and removed its stock overhang.

The steep decline in interest rates in 2012 led to multiple expansion and generally lower IRR requirements, except in industries with specific negative factors. The toll road industry was no exception. Arteris's discount was reduced in relation to some, but not all companies. While the market generally valuates companies in this industry on the basis of their current concession portfolio, in the case of CCR, a company with a valuation profile similar to Arteris's, the market was willing to pay up for growth via new contracts.

In April, a deal was announced in which OHL Spain (the controlling shareholders of OHL Brasil, with a 60% interest) and Abertis agreed to an equity swap involving a controlling interest in OHL Brasil. The deal was concluded in December, with Abertis (51%) and Brookfield (49%) acquiring a 60% interest in OHL Brasil. In exchange, OHL Spain acquired shares in Abertis and an amount in cash. The same treatment was given to minority shareholders, and the public share acquisition offering (OPA) is currently under review at the Brazilian securities commission (CVM). Because part of the transaction is in shares, the reference price for the OPA changes on a daily basis. It is currently at approximately R$ 20.00, with the share price slightly below this amount, partly because a one-year lock-up from the date of conclusion has been imposed, preventing any sale of Abertis shares up to December 2013.

Substantial stock appreciation (60%) and the change of owners led us to reconsider our position; we concluded, however, that our holding continues to offer good returns, especially compared to alternatives carrying similar risk. The new owners are dedicated concession operators, have a good track record in their markets (particularly Spain and France) and are

implementing a good change of strategy within the company that places a greater focus on delivery and internal processes and centers on toll roads as the company's core business, thus mitigating the risk of their entering new businesses. The company is likely to pay increasing dividends and operate on a more leveraged basis, as in Europe, thereby providing higher returns to shareholders. The change of name to Arteris illustrates the new shareholders' drive to deliver on the investment plan and move away from the tarnished image OHL Brasil has acquired in recent years.

Aliansce

The third most positive contributor to fund performance was Aliansce. The option to have substantial holdings in shopping centers was not ours alone. Many of our competitors held similar stocks throughout the year, all of which performed well and accounted a great deal for fund returns.

Investing in shopping centers early in 2012 made sense from both a bottom-up and a top-down perspective. Following a steep dip in Brazil's future interest rate curves, a convergence of the returns required of companies generating reasonably foreseeable cash flows with the new return levels of fixed-income securities seemed logical.

While we do not disregard this type of approach, bottom-up analyses is generally our preference. From this perspective, the likely expansion of the retail market share held by Brazilian shopping centers – helped by drivers such as convenience, comfort, a transition to a formal economy and consolidation in the industry – has generated and should continue to generate important growth for well-positioned businesses.

Brazil's highly fragmented retail market, with a limited selection of anchor stores and a much broader mix of satellite stores compared to other countries, provides greater profitability to shopping center developments.

The fact that shopping center landlords and developers are consolidating at a faster pace than retail businesses provides them with an enormous advantage when bargaining with retailers and has enabled them to capture a significant part of the expansion in retail sales.

Brazil's strengths also include important parking revenues (driven by space constraints in many regions) and the option to develop real estate projects anchored on the passerby traffic that shopping centers generate and attract. The more dominant the shopping center, the greater its potential to create value through both mixed-use developments and future expansions.

In terms of risks, the highly diversified tenant mix, the indexing of rent to inflation and natural selection of "winning" retailers – with poorly performing tenants giving way to better performing brands – provide a high level of confidence looking at a horizon of a few years.

The greatest threats to good long-term results are the growing number of developments in Brazil and competition from e-commerce. For this reason, an important factor in selecting a potential investee is the quality of its current portfolio. Well-positioned shopping centers that are dominant in their catchment areas, have strong brands and the capability to expand pose a major barrier to new entrants.

Also important to ensuring a proper allocation of capital over time is the experience and alignment of shareholder/executive interests. We believe greater alignment is achieved when executives/shareholders have most of their net worth invested in the company.

The two risk mitigators above were among the main reasons we chose Aliansce. We also believe the rapid consolidation we have observed in the industry will attenuate any excess supply. The bargaining power large developers have provides an increasing capability to attract retailers, which prevents new shopping centers from being developed in regions where demand would be insufficient to accommodate them.

Following our investment in Aliansce, all subsequent developments helped strengthen our investment case, although a longer period of time would be required to effectively test their risks. We believe the excellent performance witnessed in 2012 derived from confirmation of the good operating results expected – it is important to note – by both us and most of the market, and which underpinned the top-down assumption of converging returns.

The upside of this was that Aliansce shares ranked among the top performers in the industry, rising 73% during the year. The downside is that currently our investment provides a much lower margin of safety for less favorable scenarios.

Tecnisa

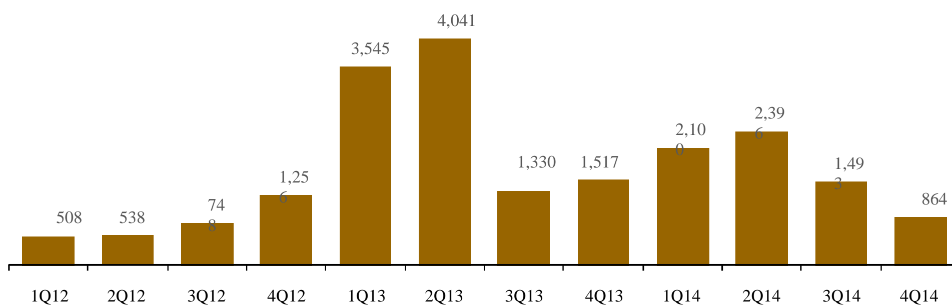
The three primary negative contributors to fund performance were Tecnisa, Dasa and Petrobras.

As discussed in our previous year-end letter, the start of financial year 2012 found Tecnisa revising budgets for projects in Brasilia, a market in which it worked with a construction partner. We assumed this to be an isolated case, but further budget overruns involving other partners' and, in some cases, the company's own projects took us by negative surprise.

With a strong presence in São Paulo and well-aligned controlling shareholders before the IPO, the company behaved like many of its peers have in their post-IPO boom and expanded rapidly into regions where it lacked a dominant presence and adequate control over (unknown) partners.

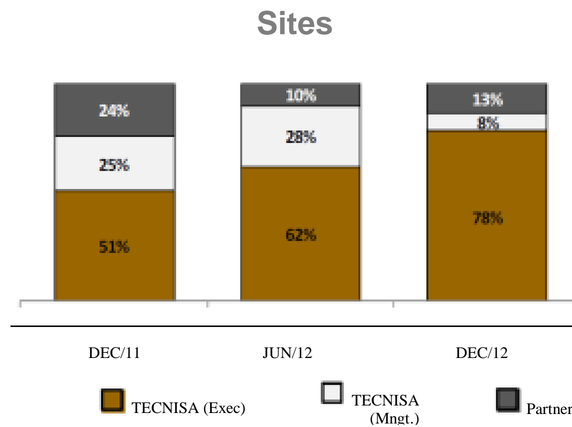
Following budget revisions for several projects in 4Q11 and 2Q12, in 3Q12 the company additionally established provisions for compensation payable to customers for delayed delivery, and recognized losses as a result of an accounts receivable module implemented in 2007 in which financial flows poorly reconciled with their carrying amounts. Due to these revisions, the company's book value declined 11.1% compared to 3Q11, the period preceding the budget reviews. Further budget revisions are expected to affect results for 4Q12, with 6 partner-operated projects taken over near the end of 2012 still pending review. The company has committed to completing the project budget revisions in its disclosures for 2012. Because nearly all delayed projects in the problematic 2007-2008 range will be delivered by 2Q13 (as shown in the estimated project delivery time frames below), we believe management now has a clear enough picture of these projects to revise their budgets accurately. We also believe all revised budgets will use more conservative assumptions so no further provisions and revisions are required.

Unit Deliveries (date of Owners' General Meeting)



Source: TECNISA

While we were thoroughly disappointed with the budget overruns in this first batch of projects following the strong expansion of developers listed in 2007, we have nevertheless retained our holding in Tecnisa. The company's share price dropped 17% in 2012 and currently reflects a very negative outlook for the next project cycle, which we, on the other hand, believe will be much more profitable than the last. With the larger number of projects scheduled to be delivered in 2013 and 2014, cash inflows are likely to be substantial. In addition, after the geographic diversification strategy initiated in 2007 proved unsuccessful, the company has decided to focus on markets in which it has managed to build its own teams or has found partners proven to be competent and reliable. Throughout 2012, the company substantially reduced the number of projects run by partners, as shown in the table below.



During 2012, the company decided to revise its strategic ambition and reduce the size of its operations. Its previous target of launching R$ 3 billion in GSV (General Sales Value) per year was reduced to approximately R$ 2 billion per year, with a focus on markets in which the company operates its own structure and has better controls (Sao Paulo City, Greater Sao Paulo, Federal District and Curitiba).

In this first quarter of 2013, the company obtained a municipal permit from Sao Paulo City for the largest project in its history, the much-commented-upon *Jardim das Perdizes* (formerly *Projeto Telefônica*). The company purchased the underlying land in 2007 and real estate prices in the region have since doubled, making the project highly profitable. At current prices in the region, Tecnisa's stake in the project (70%) is worth R$ 3.5 billion in project value to be launched within the next four years, representing more than 40% of total launches over the coming years.

It is important to note that at the end of 2012 new and beneficial tax (Pis/Cofins, IR and CS) rates were announced for developers operating under the segregated project system or Special Taxation System (RET). For all eligible projects, tax rates will fall from 6% to 4%, a direct addition of 2 percentage points to net margins, which have ranged from 10% to 12% for most companies in the industry. Tecnisa has run more than 60% of its projects under the RET system and will benefit from this tax incentive in nearly all newly launched developments, which will operate under the new system from inception. In addition to Tecnisa, Studio currently has holdings in Even and Cyrela, both of which will also benefit substantially from the new incentive.

DASA

DASA became a company with widely dispersed ownership following the exit of founding partner Caio Auriemo and private equity fund Patria in 2008. Decisions were thereafter made by a group of investment funds, which implemented an extensive cost-cutting program that would eventually compromise the company's quality of service and reputation in the medical community and broader society. For this reason, it was decided that from 2011 all strategic guidance for Brazil's largest clinical laboratory network would be established by Dr. Edson Bueno (a former controlling shareholder of Amil) and Dr. Romeu Domingues (a founding partner at CDPI), both former shareholders of MD1, a company recently acquired by DASA. To address the issue of worsening quality of service, the company was required to increase its staff and

particularly the number of physicians present at its front-office units. DASA has also invested heavily in fitting its units with state-of-the-art medical imaging equipment. Despite all these efforts, which have taken a toll the company's margins, the process of improving perceived quality in the medical community has proven to be a slow one.

With all the restructuring occurring across the company, which we believe is far from completion, profit margins have been extremely compressed. On the one hand, costs have risen substantially with the hiring of additional staff to improve quality, while on the other, revenues have been adversely affected by changes in unit layouts and the installation of new equipment, which have resulted in several days of disrupted services in certain departments. In addition, the changes in and integration of the company's call center created instability in exam scheduling, further contributing to the already disappointing revenue growth performance. The planned integration of DASA's customer service systems in 2013 may likely be an important source of further instability.

We were unaware of how degraded the company's operations had become in 2010. The company was created out of a series of acquisitions beginning in 2001, and no attempt was made to integrate their different cultures and operations. Investment funds would later cut costs excessively, adversely effecting service quality. The result was a company with a poor reputation in the market and fragile internal controls.

Also frustrating was our learning that health care providers (including clinical laboratories) have a very fragile competitive position in relation to their sources of income (generally health insurance plans). The high inflation pressures on labor and rent costs and the difficulty encountered in transferring these costs to health plans have severely compressed the company's operating margins.

While the company's share price has declined, its loss of profitability has been even greater. We believe the profit levels achieved under the management of investment funds were unsustainable and a number of challenges remain in the lengthy process of reorganizing the company and building quality and reputation in the medical community and society. In addition, we now have a more negative view on the competitiveness health care providers are able to achieve whilst being pressed between inflation pressures on costs and difficulties in transferring prices to health plans. For this reason, we decided to divest in September 2012

Petrobras

Despite Petrobras's then negative stock performance and our particularly enthusiastic view of the company's potential Exploration & Production (E&P) asset value, we concluded in August 2011 that the outlook on the visible horizon no longer justified our investment in the company.

Not only did Petrobras's downstream investments present no appreciable economic potential, but its offshore production operations were also encountering unexpected challenges. While production from pre-salt blocks has exhibited good performance, depletion rates in mature fields have more than offset the added acreage, repeatedly belying oil production forecasts in Brazil.

However, notwithstanding the many challenges we knew the company faced after posting particularly poor results in 2Q12, we wrongly believed certain disclosures and events anticipated for the final months of 2012 could be sufficient to reverse the company's negative performance trend.

Following our review of the company's disclosures for 2Q12, we believed that removing all "nonrecurring" items could increase quarterly EBITDA by approximately R$ 5.5 billion (from R$ 10.5 bn to R$ 16 bn). The added operating cash flow could be further improved by a potential announcement of a fuel price increase owing to the company's troubled condition. If our forecasts were to prove correct, Petrobras would potentially be trading at 6.7 times its annualized earnings for Q412, or a discount of more than 20% to its main international peers. Against this backdrop, we again established a small holding in Petrobras shares.

Regrettably, our expectations once again proved wrong. Nonrecurring items were not fully eliminated and the price increase was never announced. We decided to liquidate our position entirely when we realized the inflation range within which the government would accept a fuel price increase would be lower than expected. Low hydropower dam levels and the resulting increase in thermal power usage would lessen the expected impact of lower electricity rates on inflation in 2013.

A price increase was eventually granted on January 31 and, though positive, was less than required to match international prices. Once again, the fuel pricing question added to our perception that as long as the government has the option to restrain inflation pressures at Petrobras's expense, it will not hesitate to do so.

Conclusion

We have consistently and increasingly focused on company fundamentals and on seeking good investment opportunities with an attractive return on risk. Following the substantial reduction in interest rates last year, we believe operating performance will gain increasing importance for businesses in 2013.

We are well-positioned, in this context, to continue seeking unique opportunities in the equity market. We appreciate your confidence in us and wish you a superb 2013.

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Investment Policy

Our fund seeks to generate real returns exceeding the local opportunity cost in the long term by investing in equity through the Studio Master FIA.

Target Investors

The fund is targeted to investors in general.

Performance (%)		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD	Incep.
2009	**Studio FIC FIA**											**-0.06**	**5.12**	**5.06**	**-**
	Ibovespa											-1.29	2.30	0.99	-
2010	**Studio FIC FIA**	**-0.24**	**-0.20**	**4.59**	**-1.27**	**-3.86**	**1.77**	**11.58**	**-0.83**	**6.84**	**5.20**	**0.74**	**2.43**	**29.07**	**35.61**
	Ibovespa	-4.65	1.68	5.82	-4.04	-6.64	-3.35	10.80	-3.51	6.58	1.79	-4.20	2.36	1.04	2.04
2011	**Studio FIC FIA**	**-2.19**	**-1.12**	**3.52**	**0.01**	**1.27**	**-2.30**	**-3.82**	**-2.97**	**-2.28**	**6.00**	**-2.02**	**4.67**	**-1.79**	**33.17**
	Ibovespa	-3.94	1.22	1.79	-3.58	-2.29	-3.43	-5.74	-3.96	-7.38	11.49	-2.51	-0.21	-18.11	-16.44
2012	**Studio FIC FIA**	**5.42**	**6.14**	**0.43**	**-0.44**	**-4.22**	**0.55**	**1.05**	**2.94**	**2.61**	**-0.93**	**1.42**	**2.98**	**18.99**	**58.46**
	Ibovespa	11.13	4.34	-1.98	-4.17	-11.86	-0.25	3.21	1.72	3.70	-3.56	0.71	6.05	7.40	-10.26

Studio FIC FIA: AUM (MM) R$ 358.4 | Avg. AUM since 25-nov-09 (MM) R$ 126 NAV net of all fees
Studio Investimentos: AUM (MM) R$ 536
***** Data as of 31/12/2012**

Fund characteristics

Management Fee:	3.00% p.a. paid monthly
Performance Fee:	None
Subscription:	D0
Redemption:	(a) Without exit fee: T+10; (b) With exit fee: T+1; Exit Fee: 10%
Payment of Redemption Proceeds:	T+3 of redemption
Minimum Investment:	R$30,000.00
Minimum Additional Investment:	R$5,000.00
Minimum residual balance:	R$30,000.00
Custodians:	Banco Bradesco
Auditors:	KPMG – Auditores Independentes
ANBID Class:	*Ações Livres*
Bank Information:	Closed to further investment

Sector Breakdown	
Sector	**Expo.**
Financials	19%
Consumer	18%
Utilities	9%
Steel	7%
Real Estate	7%
Telecom	5%
Logistics	4%
Oil	4%
Industrial	3%
Education	3%
Mining	0%
	79%

Market Cap.	
	%
< R$2 bi	3%
> R$2 bi e < R$10 bi	39%
> R$10 bi	37%
	79%

Liquidity Analysis	
	%
< R$5 mm	0%
> R$5 mm e < R$20 mm	30%
> R$20 mm	49%
	79%

* Data updated as at 31-dez-2012

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Equity funds may be exposed to a significant concentration of securities in a limited number of issuers, and the risks deriving therefrom. This equity fund invests in an investment fund which uses derivatives strategies as part of its investment policy. Such strategies, as employed, may result in significant losses for investors. Investment funds are not guaranteed by the fund manager, the portfolio's investment manager, any insurance mechanism or the Credit Guarantee Fund (FGC). Past performance is no guarantee of future results. Investors are advised to read the fund prospectus and by laws before investing. Maximum management fee: 3.50% p.a. The maximum management fee includes the minimum management fee and the maximum percentage allowed by the fund's by laws to accommodate the management fees of investee funds.