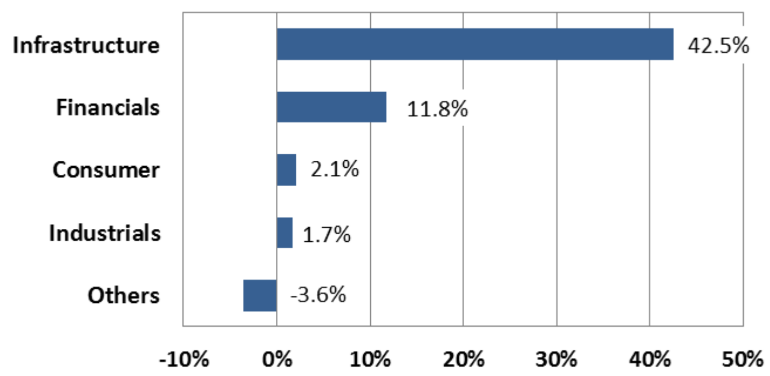
**Rio de Janeiro, November 3rd, 2015**

Our Fund completed in August its second full year and despite the very challenging macro headwinds, we have been able to build a concentrated portfolio of companies that combine solid long-term fundamentals and compelling valuations. We are very proud of our process and team for defending (and growing) capital in this difficult environment, leaving us on strong footing to take advantage of a bottoming in asset prices when the opportunity presents itself.

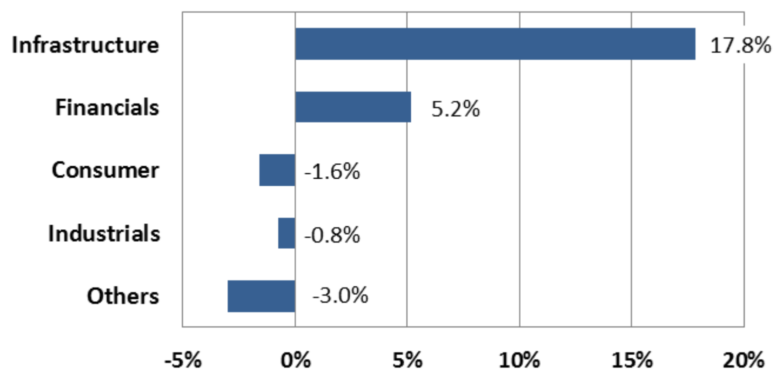
In terms of constructive engagement, we have already indicated directors, influenced changes in dividend policies, stimulated management alignment and promoted corporate governance reform in four of our invested companies.

We consider two years a short period to evaluate the Fund's performance, but we are very satisfied with the business performance of most of our invested companies. In some cases, stock prices have started to reflect their fundamentals. Since inception our Fund is up 54.5% in BRL (43.1% net of fees) and 17.6% in the last 12 months (14.4% net of fees), while the Ibovespa is down -6.7% and -16.0%, respectively.

**Gross Performance Attribution since inception (in BRL)**




**Gross Performance Attribution for the last 12 months (in BRL)**



## Investment Environment

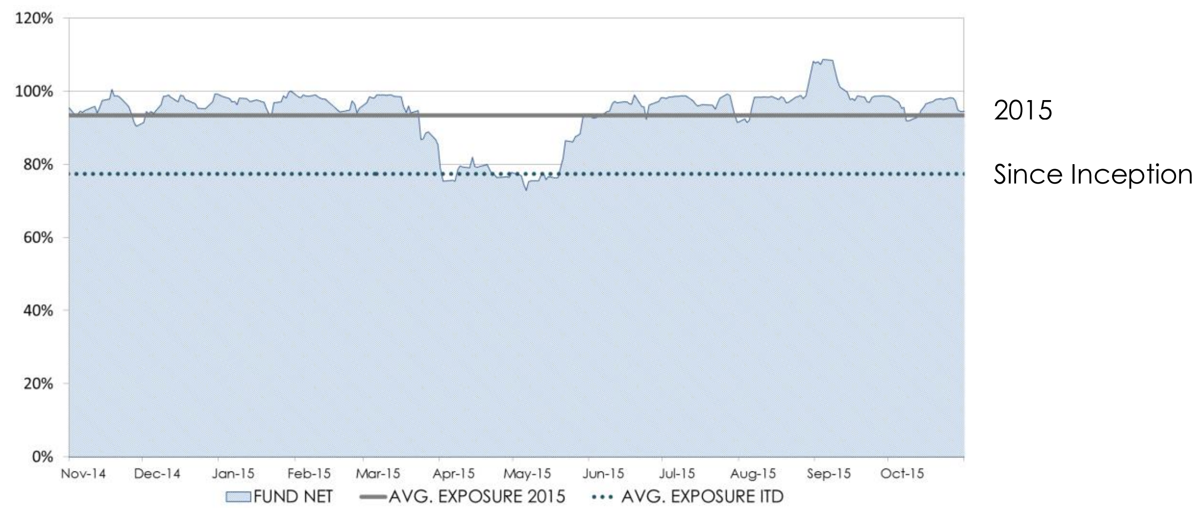
It is very difficult for anyone to have a clear or positive short-term outlook for Brazil. Considerable threats, such as, a 2-year recession, fiscal deterioration, a turbulent political agenda, corruption scandals, lack of confidence, weakness in commodities, unclear tax policies, infrastructure bottlenecks, current account deficit, high interest rates, rising unemployment and delinquency rates, pose a major challenge for investors to predict a consistent economic recovery anytime soon.

However, we focus on finding investment opportunities that provide a good return based on our business risk assessment. We think and invest as principals and pursue consistent long-term real returns. For this reason, current economic and political turmoil has been providing very interesting opportunities.

Although we do not see our entire investment universe as undervalued, we benefit from our size and high quality investor base to make long-term investments. It is also worth mentioning that this high allocation has been achieved alongside the highest concentration of the Fund – the current portfolio has 7 companies, of which the top 3 positions account for over 50% of the Fund.

The chart below shows how our Fund allocation has evolved since our last letter in August 2014. Fourteen months ago, during the Brazilian elections, our Fund had a cash position of approximately 32%. Since then, volatility has provided us opportunities to allocate our cash in the infrastructure and financial services sectors, and more recently into one consumer company. Our average net exposure has been 77% since inception and 93% in 2015.

### Fund's Net Exposure




Our current expected portfolio IRR is 14.5% in real terms, with the aggregate portfolio at 9.9x P/E and 7.8x P/CE for 2016. We expect an accumulated 3 year dividend yield close to 30% and cash earnings CAGR of 34% from 2016 to 2018. It is important to mention that we are avoiding leveraged companies, thus the aggregate 2016 Net Debt/ EBITDA of the portfolio is 1.2x, with high interest coverage ratios and extended amortization schedule.

We are very comfortable with the assumptions embedded in our earnings projections, as we work with excess margin of safety in our free cash flow models. These cushions on our numbers refer not only to specific variables related to the companies, but also to uncertain macroeconomic/tax factors. Most of our portfolio is composed of companies with sound capital structures, healthy profitability, and strong barriers to entry, which provide support to the investment thesis throughout different macroeconomic scenarios. For some companies in which we invest, the worse the macro environment, the better their relative competitive position, given their lighter balance sheet and more solid business models. This could help mitigate macro headwinds and positively surprise our earnings expectations.

## The Infrastructure Opportunity

We have been covering the infrastructure sector in Brazil since 1997. During this period, many changes were implemented by the Federal Government. We see the balance/trend of these changes as positive. Even though there were uncertainties in the past, such as the MP 579, transparency and investment environment have evolved significantly compared to 18 years ago.

However, during the last 4 years, the Federal Government offered compressed returns for projects with important execution risks such as environmental, engineering and demand risk. The consequence of this process was lack of investments (especially private) and many project delays.

Regulatory changes are not solely responsible for not attracting private operators to new infrastructure projects. The lack of governance on state-owned companies and the participation of construction companies also as operators have contributed to this lack of interest. This combination led to aggressive auction bids; with some players (mainly state-owned and government related companies) accepting very low returns in new projects and not being able to cope with the committed projects deadlines.

It was our belief that due to the lack of investment capacity of the government and its companies, combined with the continued necessity to attract infrastructure investments (around R$100 billion per year), a correction in course was a matter of time. Private capital needs to be attracted more than ever given current circumstances, and because of increased risks (fiscal, political, interest rates, taxation, etc.), the Federal Government needs to raise real returns by a substantial amount in order to be successful. Although projects' returns have shown improvements, steeper increases are still necessary.

Increases in real returns, reduced participation of state-owned entities, price shocks (electricity prices) and better rules regarding the anticipated concession renewal of ports, electricity distributors and hydroelectric plants, are some of the measures that should help the government attract efficient private operators to future projects.

A good practical example of positive changes in regulation can be observed in the electricity sector. It has suffered many changes in recent years, and historically has been a good leading indicator of the Government's objectives. It is expected for countries with diversified energy matrices facing increased electricity demand to adapt and improve regulation. This is an ever evolving process and investors should not be surprised. However, in 2012, after years of sector restructuring, dating back to 1995, the Federal Government conducted a very turbulent concession renewal process for generation and transmission companies, called the MP 579.

Without getting into much details (as this could be the theme for a long letter), by forcing electricity prices down by approximately 20% at the expense of huge losses on the balance sheets of state-owned companies and larger fiscal deficit, the MP 579 caused important system imbalances – lower prices at a time of tight supply and demand – and reduced sector investment capacity.

Recently, most of the effects of the MP 579 have been reverted. Companies that have accepted the concession renewal are in the process of obtaining financial compensations. Electricity prices to final consumers were raised by 50% this year, reducing significantly the federal subsidy to the sector and reflecting a better price reality. Other important and positive developments include: new model for expired hydroelectric generation power plants based on concession renewal fee (should not lead to lower tariffs), greater returns for new generation/transmission/distribution projects, and new regulation on working capital requirements for distribution companies ("tariff flags").

In addition, we see the "car-wash" operation having positive long-term implications for the infrastructure sector, such as increasing competition and improving corporate governance practices in state-owned companies. This could potentially bring more efficient players to the sector and more rational returns on investments.

Historically, big advances in regulation and key improvements in the private investment environment in the electric sector occurred during moments of crisis. In 1995, after a long period of public policy that used electricity prices as an instrument to control inflation, regulatory changes were implemented in order to attract private players into new expansion projects, originating an extensive privatization program. Following the energy rationing in 2001, better measures were also put in place regarding the distributors' regulation, which also allowed for further sector expansion. Recently, in the 2014/2015 supply crisis and also motivated by the current fiscal crisis, the Brazilian Government realigned electricity prices by reducing subsidies and by creating revenue cushion to protect distribution companies from large working capital requirements.

As a regulated capital intensive sector where new investments take several years to mature, it demands a deep and clear understanding of the regulatory framework, management/controlling shareholders alignment and, most importantly, a long term view and capital base.

Well managed companies in the infrastructure sector have been able to obtain very attractive returns with reasonable risks, and they will continue to thrive. Constant changes in regulation lead investors to sell and buy stocks based either on wrong interpretations or short-term factors. As we are confident that contracts will continue to be respected, we have good predictability on our long-term estimates.

We currently have 2/3 of our portfolio allocated in Electricity Transmission, Generators, Distributors, Ports and Logistics companies. Infrastructure has been the most relevant sector since the fund's inception and we believe it will continue to be our core sector in the coming years, due to our internal expertise, and the immense need for investments in Brazil.

In the following section we will discuss our largest position since inception.

## Cteep (TRPL4 BZ)

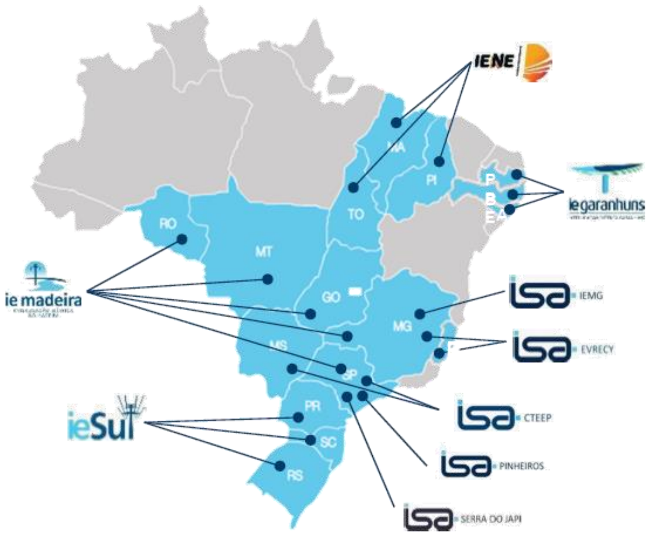
**1) Brief Description**

TRPL4 assembles several characteristics we consider to be key in a great investment. It is a natural monopoly, inflation-protected, high and predictable cash flow generation, low financial leverage, good management team and a considerable margin of safety, comprise some of the attributes that we look for in an investment case. For this reason, TRPL4 has been a major portfolio position since 2013.

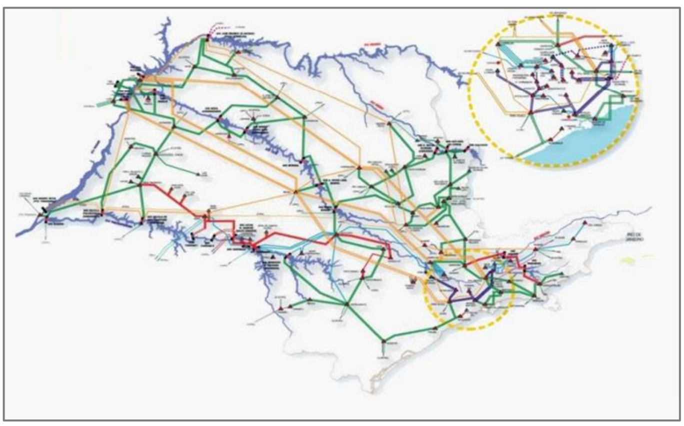
Cteep is one of the main electricity transmission companies in Brazil. Created through the merger of 2 state-owned companies in 2001, it was privatized in 2006 by the São Paulo State Government and is now controlled by ISA, a Colombian company focused on power transmission, telecommunications and highway concessions, with operations in several countries in Latin America.

Cteep's grid consists of 18,000 km of lines, 6,700 MVA capacity and 112 substations in São Paulo and other 15 States. Approximately 30% of the electricity produced in Brazil and 98% of all energy consumed in the State of São Paulo transits through its grids.

**Cteep's Subsidiaries**




**Cteep's Transmission Lines in São Paulo**



The Company is naturally protected against inflation and has stable/predictable cash flows at least until 2042 (main contract 059/2001). Cteep is compensated according to the availability of its assets through the Annual Allowed Revenue (RAP), adjusted annually by inflation and with periodic tariff review every 5 years (next tariff review will be in 2018 for the main contract).

We consider the electricity transmission sector to be the most resilient sector in the Brazilian infrastructure universe given that its revenues are not dependent on electricity sales, but rather projects are granted fixed annual revenues (as long as assets are working in perfect conditions and respecting regulatory targets). Despite all the problems faced by the electricity sector recently (electricity rationing, energy supply problems, high thermal generation costs), this segment's economics were not affected. Regulation is the simplest within the electricity sector and the main risk of a Transmission Project takes place during the construction of the asset, due to cost overruns, environmental problems, etc. After the asset is operating, it is a stable and somewhat "boring" business, especially for an efficient player as Cteep.

Cteep has been showing discipline in the implementation of cost cutting programs that have been leading to increased profitability due to lower-than-inflation cost and G&A growth (Opex is down 23% in real terms since 2012 and down 60% since its privatization). This healthy profitability allows the company to obtain a good return on reinvested capital (we estimate around 11% in real terms).

**2) The Concession Contract Renewal and "RBSE" Issue**

In 2012, Cteep accepted the contract extension of its main concession, which would expire in July 2015 (the conditions for the renewal were established by the MP 579 and law 12.783/2012). The company's concession contract was extended from 2015 to 2042 in exchange of an approximate 75% reduction in revenues starting in 2013 and a reimbursement of the value of non-depreciated assets to be paid either by the Federal Government or by higher tariffs.

This compensation was divided into 2 parts: one for the assets built after 2000 ("RBNI") and another for the assets built before 2000 ("RBSE"). The first part, which amounted to R$ 2.9 billion (as of Dec/2012), is being paid in installments and will be fully amortized by the end of 2015 (the payment was initially done by the Brazilian Government and since Jan/2015 was included into electricity tariffs). This value was paid 50% upfront and the balance in monthly installments adjusted by inflation + 5.6% p.a..

The second part – the so-called RBSE – is still under discussion, but should be announced in the upcoming months. The preliminary value for CTEEP was set by the regulator at R$ 3.75 billion (as of Dec. 2012) while Cteep is pledging R$ 4.9 billion. We expect this compensation to come via tariffs starting in July 2016, net of income tax, and we conservatively assume it will be adjusted by inflation + 6.64% p.a., which is the current WACC for transmission companies (in our view the fair adjustment would be 10.4% in real terms, which is the equity cost reflected in the WACC calculation).

As the RBNI payments will end in 2015 (R$ 7 billion per year for the sector) and the payment of the RBSE amounts to R$ 4 billion a year, the net impact is in fact deflationary (we expect a -2.0% tariff reduction for final consumers). It is also important to mention that with the end of the RBNI installments, the transmission companies' (entitled to RBSE compensation) annual R$400 million EBITDA would not be enough to cope with R$3.1 billion annual maintenance capex for these assets – making the annual RBSE payment crucial.

**3) Valuation**

At a market value of R$7.2 billion, we see Cteep trading with 14.7% Real IRR while its main peer (Taesa) is trading at a much lower return of approximately 4% in real terms. With the start of the RBSE payments, the company should adjust its capital structure and resume its dividend distribution. We expect an approximate 60% accumulated dividend yield for the next 3 years. The company will also recover its investment capacity for new projects that the government will auction.

The acquisition of Cteep by Isa was done by subsidiary called Isa Capital do Brasil – a leveraged investment vehicle, which today carries approximately R$1.4 billion in debt. In addition to the inefficient tax structure (no tax shield in this holding company), the debt clauses allow a pre-payment with reduced penalty after the RBSE compensation is defined. So, paying a large dividend to Isa's vehicle (and to minority shareholders) is an efficient way to improve its tax structure and reduce overall debt cost. Cteep and ISA have always been aggressive dividend payers.

Our current valuation for Cteep does not consider that the company will invest in new grids. However, we believe there will be many value creation opportunities in light of (1) the strong investment needs in the sector (R$5 to 7 billion p.a. average capex needs for new transmission lines in Brazil), (2) improvement in allowed returns for new lines (recently the regulator has improved allowed real returns for new lines from 5.5% to 8.1% approximately and adopted more realistic environmental and start up deadlines), (3) Cteep's efficiency and possible scale gains, and (4) few private players in this segment (low competition).

In addition to free cash flow reinvestment opportunities, our base case does not reflect the potential end of R$ 150 million annual unwarranted pension fund expenses, amortization of a R$1.3 billion credit the company claims against São Paulo State, potential reimbursement of R$700 million cost overrun in Madeira project (due to delay in environmental license issue), and a positive surprise in the RBSE indemnification value and terms. These effects could add up to 25 % to our expected return.

Where can we be wrong? Different regulatory assumptions will definitely impair some of the value we observe today in TRPL4. Less favorable terms regarding the payment of RBSE and the transfer of transmission assets to distribution companies "DITs", are the main risks. Although ISA Capital has a good track record with minority shareholders, we are invested in PN shares that do not have tag along rights. In addition, a legal dispute with Eletropaulo on a R$2.0 billion debt owed to Eletrobras also represents a risk, but Cteep has been successful in courts and we consider this risk to be very low.

Once again, we thank you for your support during our first two years and, as always, welcome both your feedback and the opportunity to discuss any portfolio ideas.

Best Regards,

3G Radar

3G RADAR

**Historical Performance (BRL) - 3G Radar FIC FIA 60 - net of all fees**

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Fund | Benchmark | IBOV |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **2013** | - | - | - | - | - | - | - | 0.2% | 5.5% | 3.7% | 1.1% | -0.8% | 10.0% | 4.6% | 4.8% |
| **2014** | -6.6% | -1.0% | 1.1% | 5.8% | 0.3% | 5.0% | 1.8% | 3.6% | 1.2% | 2.4% | 3.0% | -0.4% | 16.7% | 13.2% | -2.9% |
| **2015** | -2.7% | 6.2% | 1.2% | 6.9% | 0.3% | -0.6% | 1.8% | -9.6% | 1.8% | 6.8% | - | - | 11.5% | 14.3% | -8.3% |
| | | | | | | | | | | | | **Since Inception** | **43.1%** | **35.3%** | **-6.7%** |
| | | | | | | | | | | | | Last 12 Months | 14.4% | 16.7% | -16.0% |