

Will we let another historic opportunity pass us by?

When we had an in-house discussion to decide what we would talk about in our first letter of 2018, we concluded it would be a good time to provide our investors with another angle from which to view the way we approach investing, giving a detailed presentation of a case that is currently part of our portfolio. Due to recent events, including the arrest of former president Lula, we have decided to present our view of the current state of play and the possible effects it could have on the investment environment, revisiting a few of the issues we discussed in our January 2017 letter - “On Cycles and Equitas”.

Summary

At the beginning of 2017, we observed a unique alignment between the economic and political cycles, creating what was potentially an extremely positive scenario for equities. Economic activity showed signs it was close to an inflection point, inflation was falling and the Central Bank had started to loosen monetary policy. We also described why we expected to see a possible cycle of strong profit growth, driven by operating leverage, sector consolidation and a decrease of financial expenses following falling interest rates.

Politically, we discussed the risk that the 2018 electoral battle could pose to continuity of reforms. However, we weighed this risk against our assessment of the political cycle at that time. After 13 years of populist government, we believed there was a significant possibility we were entering a new, more conservative cycle. This feeling was backed by the 2016 municipal elections, as well as declarations by politicians, opinion leaders and media outlets. Despite being unable to identify possible candidates at the time, the most probable scenario appeared to be that the economy would be at the forefront of the electoral debate, which meant candidates who lined up against the reform agenda had a lower chance of success.

What has changed since then?

The economic scenario that has since evolved was very similar to what we had forecast. Inflation started to slow more quickly, paving the way for a decrease in the Central Bank’s basic interest rates, while economic activity indicated a widespread trend towards recovery. Company revenues posted a sequence

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of solid quarterly growth figures in the annual comparison, driven by the reasons we had discussed (operating leverage, sector consolidation and decreasing financial expenses). For example, in the last quarter of 2017, on an aggregate basis, earnings of companies in our portfolio grew 40% compared to the same period of 2016. As this trend consolidates, it will bolster business expectations and pave way for a new cycle of credit and investment growth, possibly triggering a virtuous circle of cyclical recovery.

Despite the fact that the trend towards an economic recovery has some momentum, on its own, it will obviously not be enough to lift us out of the fiscal hole we dug for ourselves. This means the reforms must continue, particularly the social security reform. It is here that our view of how the political cycle is evolving comes into play.

The trends we observed at the beginning of 2017 continued to gain strength throughout the year. There is an ongoing process that could lead to the privatization of Eletrobras. Greater awareness of the need for Social Security reforms appeared to spread among several opinion leaders and decision makers across the political spectrum. 2018 began with the economic agenda as a top priority. In January, the courts confirmed former president Lula's conviction on appeal and he became ineligible to stand under the Clean Record Act. This seemed to further decrease the chances of success for candidates who stood against the economic reform agenda. After 5 years of Dilma Rousseff, it seemed unlikely a left-wing candidate that did not possess Lula's charisma and popularity could win. However, things started to change direction. The federal intervention in Rio de Janeiro and the murder of city councilor Marielle temporarily made "security" a bigger political issue than the economy. In the last few weeks, the arrest of former president Lula and the demonstrations that preceded it meant moralistic issues pushed aside security and economics. One of these issues was the war on corruption and impunity, the hostility towards the political class and antipathy towards the Federal Supreme Court in a back-and-forth between Lula's supporters and detractors. Lula's arrest was based on a precarious STF ruling that could be overturned before the elections. There does not seem to be a significant likelihood of that happening, but if it does, it would contaminate any and all debate during the presidential election campaign. In this case, the economic reform agenda runs the risk of being overshadowed by alternate agendas, some with merit and others not so much.

The importance of debate during an electoral campaign

Former president Dilma Rousseff left a positive legacy for the country in her eloquent examples of what NOT to do. The economic experiment spearheaded by her team has been credited with settling any

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possible doubt about the effects state interference has on market mechanisms. Her recipe turned chronic economic problems into a major fiscal crisis, creating a fertile environment for a wider discussion of structural issues. Politically, it gave the 2018 candidates an education on the results of electoral misrepresentation, i.e., what happens when a candidate conceals his or her true intentions from constituents. Evidently, this legacy came at a cost. A heavy and inevitable cost - the question now is how much we can learn from it.

Building on the former president's legacy, even though the Temer administration has been unable to complete its reform agenda, it has started to blaze a trail in the right direction. The administration managed to establish ideas and raise issues concerning the economy almost to the top of the political agenda. The impact of this awareness on the electoral process is clear if we look at the stance taken by candidates who never previously identified with conservative economic policies. For example, deputy Jair Bolsonaro entered politics as a representative of a particular corporation's interests; he consistently took a protectionist stance on economic issues and built closer ties with Paulo Guedes, a known advocate of conservative economics from the University of Chicago. In their public statements, Ciro Gomes, Marina Silva and Joaquim Barbosa have acknowledged the social security problem and the need for a reform. Of course, there is a huge difference between a willingness to tackle a problem and the confidence to take the correct steps. These three candidates seem to endorse more moderate reform. Ciro and Marina talk about moving towards a capitalization system, which could have been a great solution thirty years ago. Unfortunately, long-term solutions are no longer of much use to us. We do not see a solution capable of achieving the fiscal balance needed for substantial economic growth in a low inflation environment without a significant short/medium term effort to address public accounts. Therefore, **the extent of any transition in the social security system will create the biggest conflicts with perceptions of vested interests and will be the central aspect of the inevitable conflict with Brazilian corporatism. We are convinced the intensity with which the next president will take the fight to corporatist interests will primarily depend on how the reforms are addressed during the electoral campaign.**

Evidently, a scenario where the economy is a voter priority would support a centrist candidate who is transparent about the scale of the challenge and shows some willingness to tackle it. Even if a far-wing candidate or an "outsider" wins the election, we believe the political debate that takes place during the election campaign will determine conservative aspirations in the battle against corporatism. To be more specific, despite what many on the market believe, it is our opinion that a Jair Bolsonaro victory, with Paulo Guedes as his Minister of the Treasury, could pose a varying degree of risk for progress on the economic reforms depending on how much of a priority the economic agenda is in such a victory. An

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article for Folha de São Paulo from March 21, 2018, by economist Alexandre Schwartzman, points towards a certain naivety in the belief that “the lion-tamer is capable of eating the lion”. The key factor is that even with Paulo Guedes at his side, the presidential sash would still be on Bolsonaro’s shoulders, should he win. The degree of deference that he will give his “lion-tamer” will depend on the circumstances surrounding the campaign. If it is not a large degree of deference, what will the potential president’s convictions be? That is where it gets complicated! At the beginning of the year, we had an opportunity to hear a speech by the candidate when he spoke to a group of investors. When asked about the economy, he did the opposite of Dilma Rousseff and acknowledged he knows nothing about it and will give Paulo Guedes free reign. He then described himself as an advocate for the free market and followed this with a 15-minute speech on the need to protect domestic banana producers from Ecuadorian imports and to impose restrictions on coconut water imports from Indonesia. In other words, Paulo Guedes must be highly regarded given the amount of work ahead of him. Similar reasoning applies to other candidates who may be in a position to compete for the presidency. What convictions do these candidates have about how to run the economy and the need to confront corporatism? In an interview for Valor Econômico on September 1, 2017, Joaquim Barbosa limited himself to stating his admiration for Jose Bonifacio, Getúlio Vargas and governor Paulo Hartung, giving few clues as to what he would do to address our most pressing economic issues. If the economy is not a top priority during the campaign, we will probably only find out after the elections.

The real opponent

Although the political battle between the left and right is currently dominating political debate, we believe people are focusing on the wrong issues, jeopardizing the chances of us having a campaign focused on the issue of reform.

Currently, a large number of politicians, businessmen and opinion leaders seem to believe the left is the main adversary we need to beat and the PT party is the biggest threat to an economically conservative agenda. In our opinion, those who advocate a conservative agenda have overestimated the threat that the PT and its satellite parties currently pose. Past evidence shows that, when united, an electorate that believes in left-wing values and principles is representative, but it is a small electorate in Brazil. Even PT party leaders knew this. In a years-old video available on YouTube, José Dirceu¹ was recorded during a party leadership meeting saying “we are not the majority political-social bloc in Brazil”, “we have around 17%-16% (support)” and “that is why we must build alliances”. Only a combination of

¹ José Dirceu is a founder and one of the most important historical leaders of the PT.

improbable factors and special circumstances would allow such a minority group to take power. These special circumstances arose in 2002 when Lula, a charismatic leader with keen political intuition, was able to capitalize on a feeling of frustration following president FHC's second term and attract votes from a historically centrist electorate. With Lula ineligible and the country suffering the aftermath of Dilma's administration, this "political-social bloc" has returned to its minority isolation and has little chance of attracting support from other segments of society in order to return to power. The current structure of the National Congress reflects the past 13 years of PT rule. The party was able to use the machinery of government to expand the number of seats it held in the lower house and senate, but this progress could be substantially undone in these elections. However, despite its temporarily inflated number of representatives, the left-wing bloc is not big enough to bar any proposed constitutional amendment. It is not the left-wing opposition's fault that social security reform has yet to be approved. It was organized pressure from interest groups, particularly civil servants, on their respective centre-left and centre-right party representatives that has barred reform progress so far.

The country's true enemy, which symbolizes the forces of entrenchment, is the excess of corporatism. It will be hard to overcome. This corporatist system has been rooted in our society since it was born, long before the Girondins and the Jacobins split and gave birth to our current political definitions of left and right wing. If one was to search for the source of this disease, we might have to look as far back as the sixteenth-century's Ordenações Manuelinas, which influenced development of the country's legal framework and has maintained a functional caste system ever since. In this series of books, Portuguese King Don Manuel published laws that were intended to establish a legal framework suited to Portuguese society at the time, ensuring the application of different laws for people in different functions. This was a society structured by a functional hierarchy consisting of noblemen, clerics, knights, senior government officials, judges and a lower stratum of businessmen, entrepreneurs and common folk. Almost instantly, common interests groups (corporations) sprang from this framework as they fought to protect their privileges (vested interests) and a transfer of power to the Judiciary, which was responsible for analyzing claims through application of an intricate legal code. When we fast-forward around 500 years, some corporations have changed their names and society has become less stratified, although we can still see the complexity of the legal framework that increased the power of the Judiciary, the fight to protect vested interests and the preservation of a functional caste system.

Evidently, we do not currently believe corporatism can be wholly defeated or eliminated - this would be unimaginable without some sort of revolutionary institutional breakdown - "refounding the Republic", as some demagogues have been calling it. Anyhow, the biggest adversary in any push for a more

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conservative system that does less to undermine economic development is corporatism. The struggle will be waged against corporation members (judges, prosecutors, deputies, civil servants, notary officers and union leaders), regardless of whether they are right or left-wing, for or against Lula.

And what about anticorruption efforts?

Clearly, it is in Brazilians' best interest that anticorruption efforts are based not just on moral but also on economic issues. Operation Carwash has played an active role in sterilizing the relationship between the State and private sector, helping build a more dynamic and efficient business environment. However, we believe it is in citizens' best interest that anticorruption efforts comply strictly with the law. Our body of laws is what secures the enormous power behind these corporations, but the law is the only tool citizens have to fight against any further expansion of their power. Therefore, it would not be in the best interests of those who advocate for an economically conservative agenda to give more power to their adversaries (corporation representatives), even in an effort to reduce corruption. In 2017, we saw a clear example of what this would cost.

In an act fraught with heroism and backed by a large portion of the media, Rodrigo Janot, Federal Attorney General and head of Operation Carwash for the federal government, accused a sitting President of a common crime for the first time in Brazilian history. "Coincidentally", this occurred a week before the vote on social security reform, which was expected to pass easily. In the following months, it was clear this unprecedented act, which had such severe and costly repercussions, was poorly thought-out and had been based on questionable evidence, sketchy assumptions and potential collusion between the Attorney General's Office and the prosecution's main witness. The anticorruption efforts were such an effective diversion that even conservatives turned a blind eye to the prosecutor's ruse. Ridding the country of corruption was the most important issue at the time!

The media discussions and conjecture about the true motives that led Rodrigo Janot to this apparently "hasty" decision focused mainly on a possible lack of expertise, vanity or the Federal Attorney General's political ambitions. Any combination of these drives might seem plausible. However, the fact is that Rodrigo Janot was appointed Federal Attorney General because he won the largest number of votes in an election organized by the National Association of Federal Attorneys (ANPR), an organization created to represent the interests of a corporation. According to publicly available reports published by the association, it is also a fact that the ANPR which elected Rodrigo Janot has led a fierce campaign against

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social security reform. In this case, there are those who see no connection and others who conveniently chose to turn a blind eye. Even so, most people would agree this was quite a “coincidence”!

The rivalry between “advocates of morality” and “advocates of corruption”

The tumult sparked by the arrest of former president Lula is what one would normally expect to see at a football match. Much of the commentary and analysis on social networks and in the media has focused on identifying which side each player is on. Any argument that could lead to a conclusion contrary to the commentator’s interests attracts ad hominem attacks, creating an environment where rational argument is practically impossible. Something similar occurred between left and right-wing militants during former President Dilma Rousseff’s impeachment process. At the time, National Congress was under significant pressure from public opinion.

Now, the divide between those who see themselves as “good citizens” and the “advocates of corruption” seems even wider. Rather than focus on their representatives in parliament, public opinion has turned on the Federal Supreme Court (STF) and the way it handles cases. Justices who should be issuing unbiased and technical decision on constitutional matters are now under pressure to take a more political approach. In this environment, Justice Celso de Mello, the senior STF member who was always considered a technical, unbiased and conservative arbiter, has been described as “Sarney’s disciple”². Justice Marco Aurélio Mello, who voted unpredictably on many occasions but was believed to be a technical and unbiased judge, has been described as “Collor’s cousin”³ who wants to preserve impunity. Justice Gilmar Mendes stopped former president Lula landing the role of Executive Office minister during Dilma Rousseff’s administration, which could have substantially affected the chain of events that led to impeachment, but he is now accused of heading up a “protect the criminals operation”.

The Supreme Court has been described as a battle-field in the fight between “good” and “evil”. Those Justices whose decisions hastened Lula’s arrest were depicted as heroes who acted to protect society’s interests. They include Justice Edson Fachin, who until recently was viewed as a PT appointee because of his past connections with the MST⁴, and Justice Carmen Lúcia, president of the STF, who was once considered a potential candidate for the Presidency after the first accusations against president Temer came to light. This perception of heroism was clearly absorbed by some justices, to the extent that

² Celso de Mello was appointed to the Supreme Court in 1989 by former president José Sarney.

³ Marco Aurélio Mello was appointed to the Supreme Court in 1990 by former president Fernando Collor de Mello, who later suffered an impeachment process.

⁴ Landless Workers Movement – A marxist social movement.

Justice Luis Roberto Barroso⁵, who claims to be an illuminist and holds that the STF's role is to "push history forward", felt confident enough to say: "The constitution must be interpreted in a way that reflects "society's sentiment"! In other words, he does not believe that simply applying the Constitution is enough. He appears to be advocating for greater powers for the Judiciary in order to give the STF almost divine powers to translate whatever that "social sentiment" may be, even though the court already has enormous power under Brazil's complex legal framework.

This time, it was Justice Luiz Fux who gave us a glimpse of who has most to gain from all this confusion. The honorable justice, who is not ideologically affiliated with either the left or the right, took advantage of the smokescreen created at the outset of former president Lula's habeas corpus trial to defer a lawsuit scheduled to be voted on the same day that could have ended the housing benefit paid to judges. Justice Gilmar Mendes denounced his colleague's corporatist maneuver in a live, televised plenary session, although his accusation had no meaningful repercussions, after all, it is simply not worthwhile listening to anything someone you believe to be an adversary might say. **In this circus, the tricks played by our corporations are true stars!**

Brazilian conservatism out of focus

Our biggest cause for concern during recent events has been the position taken by so-called economically conservative groups and leaders. Since impeachment, some political parties, organized groups, opinion leaders and businessmen has been spearheading a movement to increase awareness of economically conservative issues. The catastrophic effects of Dilma Rousseff's volunteership while steering the economy created an ideal environment for the spread of the rationale behind the conservative agenda beyond the confines of the Leblon and Faria Lima⁶ groups. However, many of these groups embraced the "resist Carmen Lúcia!"⁷ movement. The backdrop was the general feeling that corrupt politicians colluding with Supreme Court justices had set in motion a sort of "protect the criminals operation", whose first stage was to free former president Lula from jail. Subsequently, this would create an opportunity for corrupt politicians from other parties to escape the clutches of the legal system. Thus, the "resist Carmen Lúcia!" movement was an attempt to empower the STF president so she could use a procedural maneuver which would immediately ensure former president Lula would be arrested, albeit

⁵ Luis Roberto Barroso was appointed to the Supreme Court in 2013 by former president Dilma Rousseff.

⁶ The main financial centers in Brazil.

⁷ A wide movement on social media and street protests of people advocating for the president of the Supreme Court to maneuver in such a way that a particular interpretation of one of the Court's prior decisions be applied to former president Lula.

on shaky grounds. In our view, the movement's success has at least three potentially negative consequences for short-term development of the conservative agenda.

The first immediate consequence is the empowerment of corporatist representatives, whose interests stand in clear opposition to the economically conservative agenda. Janot has revealed the enormous cost of this sort of empowerment. As discussed previously, it is not PT or the left-wing parties that will stop an economically conservative agenda moving forward. It is the judges, prosecutors, appellate judges, police chiefs and other civil servants who have the power to exert orchestrated pressure over the National Congress and the power to hamper progress and perpetuate their corporations' "vested interests". The sentiment that appears to be driving the "resist Carmen Lúcia!" movement is the idea that the Constitution and our legal framework are now undermining anticorruption efforts. In other words, it would be worthwhile supporting a number of "well-intentioned" judges, prosecutors and STF justices who are in tune with "social sentiment" and give them the freedom to "push history forward", possibly by taking some shortcuts. However, history shows us that when someone is given the support and power needed to interpret the law with a certain level of flexibility, that person ends up using this power to protect their own interests. Acts of virtue, restraint and detachment are extremely rare. This situation rarely ends well for conservative causes.

Carmem Lucia's decisions have been celebrated by conservative groups as if they were the result of public pressure. However, the military also believes its pressure on the STF has been successful and that comments by General Villas Boas⁸ made a major "contribution" to the movement. In our view, it seems naive to believe that these "social" street protests will be able to control or avoid greater empowerment of corporatist representatives.

The second consequence is an increasingly irrational environment for debate, which will not benefit further dissemination of conservative ideas and values. The idea that a fairer and more prosperous society has more chance of developing under a system that favors citizens' free initiative, that guarantees the right to property and curtails State power, needs to be discussed in a minimally rational environment. It is not easy to find opportunities to more widely disseminate these ideas across society. This time, the series of bad examples left behind by Dilma Rousseff's administration created an opportunity for a more rational debate. However, recent episodes have been marked by strong support

⁸ The head of the army, who twitted to pressure Supreme Court justice.

for a more moralist agenda. Opportunists, demagogues and authoritarian groups are more comfortable on this terrain than our conservative advocates. We have decided to give our opponent home advantage.

The third consequence is that, because the “resist Carmen Lúcia!” movement was successful and former president Lula was arrested, the left-wing agenda has a chance of revival. An attempt to annihilate and humiliate your opponent without giving him an escape route might not achieve the intended outcome and could lead to a situation that was inconceivable only a short while ago. This is not a battle-field and, in this case, the adversaries were not annihilated. They will go to the polls come October. One possibility is that now that Lula has been arrested, the PT leaders will no longer see an opportunity to launch a strong candidate and, for the first time, the party might support a candidate from another party with a better chance of getting elected. **Ciro Gomes** has taken a measured and conciliatory tone as he tries to attract more centrist votes and he could receive a significant boost from the 16%-17% of the population mentioned by Zé Dirceu, which would make him a strong contender.

Another possible effect is that the PT may gain strength during the electoral process by presenting Lula as wronged martyr. The left wing, which seemingly had no agenda that might resonate outside its own ideological group, now has an opportunity to explore. A survey published by the Ipsos Institute last weekend suggests that only 32% of respondents believe the former president is innocent and only 23% believe he was not involved in the corruption schemes investigated during Operation Car Wash, although 44% believe his arrest was unfair and 46% think he should not have been arrested. As ludicrous as the martyr strategy might seem, the data seem to suggest it could boost leftist causes.

As far as the reforms are concerned, the conservatives, who are natural advocates of this agenda, should use them as a political rallying call and make sure they remain one of the main issues on the table. However, our conservatives seem preoccupied with their battle against PT (while some take a quick break to cheer the policies of President Trump - the trade protectionist “conservative”), believing they may have a chance against populist demagogues in a debate leaning more towards morality. This scenario implies our reforms will be left rudderless to muddle forward on their own.

What to expect?

It seems clear that events over the past several months have diverted attention away from the conservative reform agenda that President Temer set in motion. The economic agenda is no longer a

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major issue for opinion leaders or the general public. Even so, interest in the economy could be rekindled. There are less than 6 months left until the elections and much could still happen. Following impeachment, after a period of heated dispute between left and right-wing militants, the economic agenda reimposed itself and that could happen again. The effects of the federal intervention in Rio de Janeiro, economic progress, international events and a potentially abrupt shift in risk perception among market players are just a few events that could drive the economy back to the top of the agenda during the electoral campaign. On the other hand, if Operation Car Wash snares more politicians and the STF reverses its position on second instance arrests, these are examples of events that could knock the economy off the agenda at a key period of campaign decision-making. In any case, recent events have benefitted moralist or populist candidates to the detriment of those who could flourish in an environment more open to rational argument.

How should we invest in an environment where so many scenarios are possible?

In the last few decades, Brazil has behaved like a student with great potential who does the bare minimum to get a pass. Sometimes, he gets bad grades. In these cases, it is not a good idea to bet on him being held back a year. He might have to stay for after-school classes, but he will end up passing. The power to react is significant because of poorly harnessed potential. By the same token, it is not worth getting too excited about the occasional glimmer of brilliance, after all, the goal is simply to get through the end-of-year exams.

We believe we are unlikely to see a scenario where no changes are made on the fiscal side or where no version of the social security reform is approved. On the other hand, neither do we believe it particularly likely we will see a reform package that would allow us to significantly boost economic growth. In our view, the most probable scenario is one where, once again, we fail to seize the opportunity created by a favorable moment in history, but are able to deploy enough incremental reform to avoid disruptive scenarios. Despite this backdrop to our investment approach, we are still hoping for a surprise.

Things have never been easy. The Equitas Selection fund launched on the eve of Dilma Rousseff's election victory in 2010. Many mistakes we made were amplified during this period of uncertainty and volatility. We have been through an in-depth internal review to align our objectives on a long-term journey, protect our core administrative and analysis teams and improve our investment process. Looking back, we believe we managed to cope relatively well. Equitas Selection secured annual returns of 21% compared with 4% from the Ibovespa and 11% from the CDI over the same period of time. Looking ahead, we feel better prepared to face potential challenges. It is up to us to remain humble enough that we can

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acknowledge we are dealing with uncertainties and occasionally have no answers, have the determination to continue looking for answers, focus on what we do well, which is identifying investment opportunities by analyzing corporate fundamentals, be willing to constantly improve our investment process while striving to learn from our mistakes and have the clarity of mind to understand that a basic condition for making money in any long-term project is to avoid losing it.

In the corporate arena, trends still indicate a strong recovery for profits...

Equitas Selection FIC FIA vs Ibovespa vs IBX vs CDI

	Absolute return				Annualized return			
	Equitas Selection	Ibovespa	IBX	CDI	Equitas Selection	Ibovespa	IBX	CDI
Starting on (06/07/2010)	329.2%	37.5%	80.8%	119.5%	20.8%	4.2%	8.0%	10.7%
36 months	92.2%	66.9%	66.0%	40.2%	24.6%	18.8%	18.6%	12.0%
24 months	82.4%	70.5%	70.3%	23.3%	35.4%	30.9%	30.8%	11.1%
12 months	31.6%	31.4%	31.3%	8.4%				
Year (2018)	11.8%	11.7%	11.3%	1.6%				

Baseline date: 29/03/2018

Average PE - Last 12 months - Equitas Selection FIC FIA (R\$ thousands): 171,389

Current PE - 29/03/2018 - Equitas Selection FIC FIA (R\$ thousands): 280,261

Current PE - 29/03/2018 - Equitas managed Funds (R\$ thousands): 413,232

The current institution has adhered to the ANBIMA Code and Best Practices for the ANBIMA Investment Funds.

EQUITAS SELECTION FIA: THIS INVESTMENT FUND USES STRATEGIES INVOLVING DERIVATIVES AS AN INTEGRAL PART OF ITS INVESTMENT POLICY. SUCH STRATEGIES, IN THE MANNER THAT THEY ARE INCORPORATED, MAY RESULT IN SIGNIFICANT ASSET LOSSES FOR SHAREHOLDERS, AND MAY ALSO RESULT IN LOSSES THAT EXCEED THE CAPITAL INVESTED AND SUBSEQUENT SHAREHOLDER OBLIGATION TO INVEST ADDITIONAL FUNDS TO COVER FUND LOSSES. THIS FUND INVESTS IN INVESTMENT FUNDS AND IS AUTHORIZED TO INVEST IN FINANCIAL ASSETS ABROAD. THE FUND OF SHARES MAY BE EXPOSED TO A SIGNIFICANT CONCENTRATION OF ASSETS FROM FEW ISSUERS, ALONGSIDE THE RISKS THAT THIS PRESENTS. THIS FUND IS LIABLE TO AN OVER 30% (THIRTY PER CENT) RISK OF CONCENTRATION OF ITS NET WORTH, INDIRECTLY OR NOT, IN "PRIVATE CREDIT" ASSETS.

WE RECOMMEND INVESTORS TO CAREFULLY READ THE SUMMARY AND THE INVESTMENT FUND POLICIES WHEN INVESTING RESOURCES. THE USE OF IBOVESPA AS AN INDICATOR IS SIMPLY FOR THE PURPOSE OF ECONOMIC BENCHMARKS, AND NOT AS AN OBJECTIVE PARAMETER FOR THE FUND. PURSUANT TO CVM INSTRUCTION N. 465, FROM 02/05/2008, THE VARIABLE INCOME FUNDS ARE NOT LONGER ESTABLISHING THEIR PROFITABILITY ACCORDING TO AVERAGE STOCK PRICES, INSTEAD USING CLOSING PRICES AS BASIS. PROFITABILITY COMPARISONS PRIOR TO 02/05/2008 MUST USE THE AVERAGE PRICE OF STOCK INDEXES AND, FOR PERIOD PRIOR TO THIS DATE, THE CLOSING PRICES. FOR CARRYING OUT A PERFORMANCE REVIEW OF THIS INVESTMENT FUND, IT IS ADVISABLE TO ANALYZE A MINIMUM OF A 12 (TWELVE) MONTH PERIOD.

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