

Today marks the completion of 3G Radar's first 12 months of investing, which is an appropriate time to write our first letter and address four questions that we are often asked:

- 1) Why start 3G Radar?
- 2) Partnership with 3G Capital?
- 3) How do we invest?
- 4) How is it going?

## Why start 3G Radar?

After 16 years working together as partners of Banco Pactual and Vinci Partners, Pedro and I felt we had enough experience in Brazilian equities, senior relationships and a solid track record to start our own long term equity fund. In our view, this would be the best way to compound our capital and apply what we had learned while doing what we are passionate about.

Our business plan was built on four pillars:

**1) Team:** Our #1 priority was to build a talented and hardworking team that we like and admire personally and professionally. We were very fortunate to have the opportunity to bring on board two partners that used to work with us at Pactual (Marcelo Henriques and Pedro Montenegro) and two partners that were part of our team at Vinci (João Grangeiro and Bruno Bretas). Thus, six out of seven members of our investment team have already worked together and share the same culture. Our seventh investment member (Afonso Rezende) also came from a very successful Pactual spin-off called JGP. Leonardo Tavares, Christian Solon and Carla Menezes complete our team taking care of operations, risk, investor relations and office.

**2) Investment Process:** This is the base for long term investment success and we believe in teamwork, independent thinking, deep due diligence, and stress testing. Although we feel very confident about our current investment process, we constantly seek to improve it as we continue to mature both as investors and as a team.

**3) Focus:** One team, one strategy, and one concentrated portfolio of 7-15 positions. By focusing the team we strongly believe we have an edge in finding and monitoring companies that are offered below their intrinsic value. To maintain this focus and strategy we must be disciplined in AUM as capacity in Brazil is limited.

**4) Long Term Alignment:** We have always worked in partnerships, and undoubtedly understand that long term alignment is vital, not only among our team but also among our investors and invested companies. At 3G Radar we invest in the same vehicles and on the same terms as our LPs, and we are also committed to reinvest most of our annual compensation in the fund. Our goal is to have everyone at 3G Radar and at the invested companies thinking like owners, aligned with shareholders.

## Partnership with 3G Capital?

Our relationship with the 3G Capital ("3G") and especially with Alexandre Behring dates back to 2004, when Alex was the CEO of ALL (America Latina Logística) and Pactual was one of the IPO advisers. Since then we have developed a very close professional relationship.

After leaving Vinci, Pedro and I went on to start Radar Equities. In the middle of the process of setting up, we had the opportunity to do a minority share swap with 3G Capital, creating 3G Radar. As governance was a determinant factor that led our decision to start our own fund, we reached a model where we are totally independent while aligned in the long term as partners.

The partnership enriches our investment process, as we can learn from their long and successful real economy experience. 3G also helped us set up our operations which allowed us to rapidly reach high standards of risk management, compliance and systems. The partners of 3G also invested in 3G Radar Fund and we are all very pleased with the partnership.

## How do we invest?

As most of our money is invested in 3G Radar, we think and invest as principals. As such, we pursue consistent long term real returns. We look for companies with clear competitive advantages, barriers to entry, a solid track record in cash generation, ROIC and dividend payments. We also invest a significant amount of time with management and controlling shareholders in order to better understand their long term goals as well as level of alignment with shareholders. Typically, we find good opportunities in sectors such as utilities, consumer products, toll roads, logistics, financial services, industrials, healthcare, and retail. We tend to find more value in mid and small caps names or in assets that are unpopular, boring, under-covered, or in some cases, even controversial.

It is equally important to know when we do not have a structural edge or when we should require an extra margin of safety. Therefore we do not invest in commodities or airlines, and are unlikely to invest in sectors such as meat producers, homebuilders, banks, and tech.

Our main competitive advantages are: 1) deep knowledge in sectors we cover; 2) capital base that allows us to have a true long term horizon; 3) partnership with 3G Capital that enhances our investment process; 4) senior relationships built over 17 years; 5) ability to engage with management or board of directors when we believe it could add value; and 6) our awareness that capacity in this strategy is limited and commitment to be very mindful of our AUM.

As time is also limited and our team needs to remain focused, we created an acronym called ROIT (Return on Invested Time). If a business is too complex to understand, it is probably not worth our time. On the other hand, if we find a great business that we understand in a complex situation, it may well be worth the invested hours. As disciplined investors, we stick to our circle of competence and focus our time on companies and sectors that we understand, invest or plan to invest when they are trading below our assessment of intrinsic value. We do not mind price volatility and focus on the business risk of the invested companies. Thus, we spend most of our time visiting, researching and asking ourselves where we could be wrong.

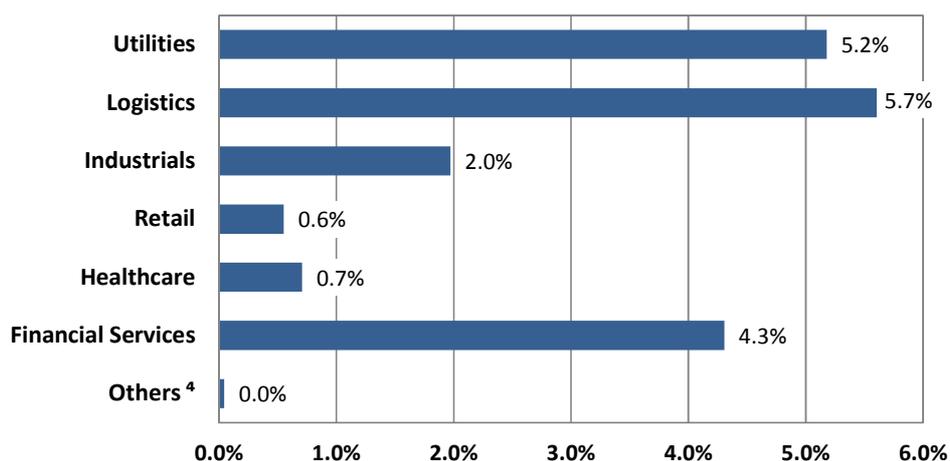
This first year was also very important for us to solidify, as a team, our investment style. After several extensive internal discussions, we decided to focus on our long portfolio (an example of "ROIT" in action). We need to find good companies to own for several years. Nevertheless, we maintain our flexibility to put on single short positions and use derivatives in extraordinary circumstances.

### How is it going?

As long term investors we know that one year of performance is not meaningful. The Fund returned +20.3% gross in USD (+18.5% in BRL) with an average net exposure of 64% from August 2013 to July 2014. We held on average 10 positions, 5 of which we have been shareholders of for 3-5 years<sup>1</sup> (WSON33, WEGE3, TRPL4 and ELET6) or longer (EQTL3<sup>2</sup>).

Although we had some missteps, every sector had a positive contribution to the fund:

#### Historical Gross Performance Attribution (in BRL)

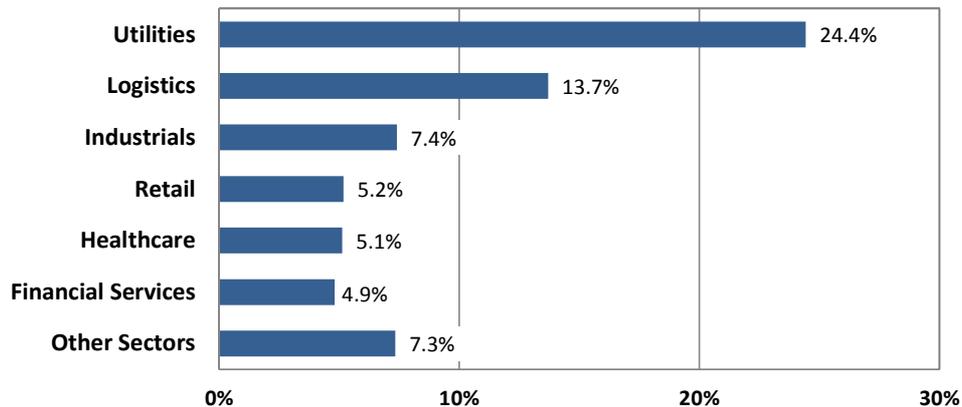


Although it has not been easy to find bargains in Brazil, we were able to build a concentrated portfolio of companies that have clear competitive advantages or unique assets, revenues adjusted by inflation or pricing power, and/or internal dynamics such as operational turnaround, de-leveraging and cost cutting.

<sup>1</sup> We invested in Wilson Sons, WEG, CTEEP and Eletrobras in 2010-2013 while we were at Vinci Partners.

<sup>2</sup> Mario Campos and Pedro Batista have been shareholders since PCP Latin America invested in Cemar in 2005 and actively participated in the investment process and Initial Public Offering of Equatorial in 2006.

### Current Portfolio Sector Exposure



Below is a very brief investment case summary of our top 5 positions that currently represent over 50% of our portfolio:

- **CTEEP** (TRPL4 BZ): unique assets, monopoly-like, long term concession adjusted by inflation with a very high dividend yield in the coming years.
- **WILSON SONS** (WSON33 BZ): unique assets, dominant market share, solid track record and strong ramp up in cash generation and dividends.
- **WEG** (WEGE3 BZ): low cost producer, strong culture, ROIC oriented, unique local distribution and strong EPS growth.
- **EQUATORIAL** (EQTL3 BZ): unique assets, monopoly-like, operational turnaround, solid track record, and M&A opportunities.
- **HERING** (HGTX3 BZ): asset light model, operational turnaround, growth potential, high cash generation, ROIC oriented and healthy dividend yield.

Most of the above companies are under-owned and overlooked because of liquidity, regulatory risk or turnaround uncertainties. We feel confident that our portfolio will generate good real returns with adequate risk in the years to come. In our next letter we expect to discuss some of these investment cases in greater detail.

We thank you for your support during our first year and always welcome your feedback and the opportunity to discuss any portfolio ideas.

Best Regards,

Mario Campos

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