Build and They Will Come

Vertra Capital is completing one and a half years of the launch of our funds and one year with our complete group of partners. During this period, we integrated the team and began to enjoy improvements related to the partnership and management structure that we designed.

Vertra Structure

Our partnership structure devotes to investment analysts substantial economic interest in the company. In addition to financial incentives in the equity of the firm, we adopt a participatory model, where all partners have influence in discussions and decision-making processes. We are all "owners", aligned to the firm as a whole and building Vertra's DNA.

The structure was a differentiating factor that helped attract, retain and motivate our team. We built a group of qualified and complementary professionals. This allowed us to achieve a balance between opposite profiles, such as qualitative and analytical, practical and theoretical and risk-taker and risk-averse.

Our internal environment is open to criticism and feedback, where members respect each other and do something nontrivial: listening to other partners and seeking day-to-day improvements.

By aligning compensation to the overall result of the firm, we reduce the individualism bias and enable research under a multi-analyst format. We have more than one analyst with sector expertise in 80% of our core coverage universe. As a general rule, in addition to the lead analyst we have a second analyst involved in the same investment case. This generates rich discussions and counter-arguments with more expertise. This approach reduces the bias of informational monopoly and raises the quality of research and decision-making.

Another aspect of our structure that we believe is uncommon is our multi-functional approach. Investment partners concentrate most of their time and efforts in investment analysis and portfolio management, but also contribute in the commercial interaction with customers, in the strategy for our firm, in the evaluation and compensation system, and, above all, in shaping our culture. Our partner responsible for operations also has a multi-functional profile, working with investor relations and contributing to our investment research with inputs and connections. With involvement in different areas of our company, motivation and contribution of professionals grow exponentially.

Finally, Vertra has a single investment strategy where a major part of the partners' wealth is and will always be aligned with the capital of our clients.

Investment Philosophy

In line with our group concept, our investment philosophy does not reside exclusively in the head of the CIO, but it was drafted and approved by the whole investment team. If any member proposes an investment inconsistent with our philosophy, the CIO acts as the guardian of these guidelines. The fact that the member himself has helped in the construction of the philosophy facilitates his acceptance. If on the other hand, we conclude that our philosophy deserves some improvement, this adjustment is incorporated taking effect to all investment cases.

Implementing an investment philosophy is a process that requires a lot of discipline but also a relevant dose of common sense. This is the balance that we pursue when weighting the relative importance of each aspect of the investment case and never dumbly following rules without considering the essence behind them.

"How do you keep Vanguard a place where judgment has at least a fighting chance to triumph over process?"
- John C. Bogle[1]

[1] "Enough: True Measures of Money, Business, and Life" – John Bogle

Our investment objective is to maximize long-term absolute returns by investing in companies with good business and management quality.

This is not an easy goal, since traditional compensation models based on bonuses for short-term performance generate incentives misaligned with a long-term view.

"Never, ever, think about something else when you should be thinking about the power of incentives." - Charlie Munger[2]

We see a significant portion of market participants focused on the quest for short-term informational edge. It is a process where efforts are not directed to the development of knowledge, but to the consumption of marginal information. Especially information that may affect short-term results with potential impact in the stock price. That is what James Montier[3] calls "*the futile quest for edge*".

A long-term strategy, on the other hand, requires deep qualitative analysis focused on the company longevity and intended for reflection and knowledge accumulation. Such environment is difficult to implement without a proper alignment of the investment team.

Our research and decision-making process is oriented to the long term. We believe that the opportunities for active equity management with long-term orientation remain quite attractive in Brazil.

In this context, we channel our efforts towards non-perishable knowledge, oriented to the structural issues of the companies we analyze. This takes place in an environment where the quest for knowledge and continuous improvement is strongly encouraged.

We know that short-term performance pressures will always exist. This dilemma is part of our business, which is to manage not only our net worth, but also the capital of our clients. To mitigate this issue and facilitate the implementation of our philosophy, we seek to attract investors aligned with our proposal, while maintaining close proximity to our partners through two-way interactions with our team. Authenticity and honesty are the best way to build relations of trust in the long term.

Within our process of continuous improvement and focus on non-perishable knowledge, we have adopted a weekly routine for discussion of books and articles related to our business. Reading has always been part of our culture and individual habits, but we believe that the group discussion enhances the absorption of new knowledge.

Among the topics addressed in the discussions, we highlight investment philosophies of successful managers, the study of decision-making process, management systems, interpersonal relationships, psychology and ways to work the mind, competition models and any other subject that may add value to our analytical and decision-making tools.

Research Process

To maximize the results of our research process we decided to restrict our core coverage universe to 38 companies. Our investment team selected these 38 names, taking into account business and management quality. Focusing on fewer companies and prioritizing non-perishable knowledge allow us to dedicate substantially more time to structural factors in our research, than would be otherwise achievable under a more traditional coverage format. Besides composing more knowledge, this model is very powerful in developing a network in the company's ecosystem. In this sense, we seek to establish a network of relationships based on a win-win interaction, in which we act not only absorbing new knowledge but also sharing information, debating and providing our opinions to our contacts.

Our research process encompasses three major fronts: business quality, management quality and risks.

[2] "Poor Charlie's Almanack: The Wit and Wisdom of Charles T. Munger" – Peter Kaufman
[3] "Seven Sins of Fund Management" - James Montier (Dresdner Kleinwort Wasserstein)

Business Quality

We focus our analysis of business quality in identifying sustainable competitive advantages (moats), which allow the company to have an ROIC structurally above the cost of capital.

In general, the most relevant characteristics end up involving scale, distribution, switching cost, brand, industry rivalry, network effect and the threat of substitute products. We devote much of our research to access a large number of contacts in the industry, in order to obtain a critical and unbiased view over those characteristics, rather than holding on to the company's official speech. Many times, we also simulate the return of a new entrant to identify the real obstacles for the establishment of competition.

In addition to identifying the non-replicable characteristics that support high profitability, we try to analyze if the company is expanding its moat over time, or if there is any credible threat against its competitive advantage. We reflect exhaustively about what could change in the industry and how capable the company would be to adapt to such changes.

Management Quality

When we research the quality of the company's management, we seek to answer several questions, including: What is the integrity of top management? What is their track record in managing operations? Does the CEO know how to delegate, form teams and prepare his succession? Is the CEO short-term oriented, concerned with self-promotion and stock performance, or long-term oriented and passionate about the company's operations? How is management compensated? What are the targets and incentives? Are targets brought down to the base of the organization? What is the company DNA/culture? How is the corporate governance?

In addition to management's ability to run operations, it is important to identify his/her capacity as a capital allocator. There is ample room for value creation through a good process of capital decisions, like investing in its own business, doing M&A or buying and selling the company´s own stock. It is important to identify not only the track record and discipline of past decisions, but also the opportunities for future capital deployment.

Risks

The third key phase in our investment analysis is risk management.

The risk we care about is the one related to the business fundamentals and to the company's ability to generate cash for shareholders. We do not care about the metrics generally related to the stock price, such as volatility or beta.

We are oriented to capital preservation, but concerning risks associated with permanent losses. Negative mark-to-market impacts tend to be temporary and less relevant, except in the presence of crossover risks where a financial distress or an equity dilution may bring a permanent loss for shareholders.

We identify the key value drivers of companies and simulate various scenarios to the company's fundamentals. Instead of considering only the expected value of these scenarios, we pay special attention to our worst-case scenario, in order to avoid assets with a high tail risk in fundamentals.

Before our decision-making, we implement a brainstorming of risks. We simulate the hypothesis of the stock being down 40% in the year and then ask the analyst which changes in company fundamentals could explain such an adverse scenario. Forced to think this way, we can imagine and identify risks that otherwise would go unnoticed or little weighted.

Decision Making Process

The decision-making process is a crucial step in the investment activity. We are constantly trying to enhance our decision-making process, focusing on the mitigation of errors and behavioral biases in the process.

Vertra decisions are usually taken in our Investment Committee. The members of the investment team have high participation in and influence on decisions, but we keep with the CIO the important role of final decision maker.

We are aware of the challenges of a group decision process, and that many academic papers and books question its effectiveness. As an example, a common obstacle is the groupthink trap, when the opinion of one or two professional ends up influencing the opinion of the rest of the team, conveying the false impression of convergence and conviction in the decision.

Aware of that, we have adopted some procedures that seek to mitigate this problem. First, the fact that investment members are substantially aligned with the equity of the firm allows a more horizontal environment with openness for critics and counter-arguments. Second, we not only encourage and value the counter-argument, but we are formally introducing the rule of “devil's advocate”. In this case, one analyst is responsible for defending the opposite thesis of the one being presented. In addition, all analysts, including the leader of the analyzed investment case, register their recommendation in writing before the meeting without disclosing to others. This preserves the independent opinions and forces the identification of potential divergences, helping in forming a conclusion without the group social bias.

Another initiative to improve our decision-making is the introduction of a checklist. We have compiled historical investment mistakes of all members of the team, with clear identification of causes, in order to develop a checklist to minimize errors in new investments. Behind the bureaucratic appearance, this is an effective way to improve performance, whether of airline pilots, medical surgeons or investment managers[4].

Finally, we ask ourselves if we would be comfortable in making the investment if we could only revisit it five years from now. This mental exercise increases the rigor required in relation to the investment case.

If we become comfortable with the business quality, management quality and risks, the company becomes eligible for investment in our portfolio. We then consider the value equation and safety margin given our entry price. Our central thesis is that if we allocate capital to a good business and a good management at an appropriate price we will compound good returns in the long run.

Once the investment is made, we are always monitoring whether valuation justifies the reduction or divestiture of our position, or whether we can find opportunities that would support an increase in our exposure.

It is clear that we will spend a significant portion of our time analyzing structural issues for our investment thesis. However, we do not neglect the process of monitoring information and results of the companies we cover. It is important to keep closely following the companies, continually asking ourselves if the components of our long-term thesis remain intact.

"Charlie and I do not ignore short-term financial reports. They are not unimportant. We just do not live by them."
\- Warren Buffett[5]

Our Company

As an investment management company, we faced a macroeconomic period with adverse impact to the equity market. Despite the headwinds, we are growing our customer base slowly but in the right direction, attracting partners aligned with our purpose, new family offices and even entering the segment of pension funds. We currently manage R$ 175 million.

We are proud of the quality of human capital gathered at Vertra and of the growth these multi-functional professionals experienced in the challenge of building a new company. The high motivation and dedication of team members help form a culture of quest for continuous improvement. After building this solid foundation, we hope to reap the benefits for Vertra and our investors.

Thank you for your trust,

Vertra Capital Team

[4] “The Checklist Manifesto” - Atul Gawande
[5] 2015 Annual Shareholders Meeting of Berkshire Hathaway

VERTRA FIC FIA
May 20th, 2015

Fund Description

Vertra FIC FIA is a fund with predominantly long exposure to Brazilian Equities. In managing the fund, we value the quality of the companies we invest in, as well as the quality of their management teams, maintaning a rigorous value discipline. We conduct original, proprietary research, enabling us to diverge from market consensus, identify good investment opportunities and continuously monitor internal and external factors with the potential to bring additional risks or affect the value of our investees. We may occasionally take up short positions with the objective to generate absolute gains. Vertra FIC FIA was established on October 4th, 2013.

Performance in BRL (Domestic Fund)[1]

Vertra FIC FIA		Jan	Feb	Mar	Apr	May*	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
2013	**Fund**										**2.05%**	**1.91%**	**-1.88%**	**2.04%**
	IPCA + IMA-B5+[7]										0.81%	0.89%	1.28%	3.01%
	Ibovespa[10]										2.66%	-3.27%	-1.86%	-2.54%
2014	**Fund**	**-4.73%**	**2.35%**	**2.61%**	**1.69%**	**-0.62%**	**1.94%**	**0.98%**	**6.01%**	**-9.60%**	**5.11%**	**0.92%**	**-4.97%**	**0.56%**
	IPCA + IMA-B5+[7]	1.09%	1.15%	1.36%	1.16%	0.97%	0.87%	0.58%	0.74%	1.09%	0.98%	0.99%	1.30%	12.99%
	Ibovespa[10]	-7.51%	-1.14%	7.05%	2.40%	-0.75%	3.76%	5.01%	9.78%	-11.70%	0.95%	0.07%	-8.52%	-2.91%
2015	**Fund**	**-4.10%**	**7.23%**	**0.94%**	**1.79%**	**-0.27%**								**5.37%**
	IPCA + IMA-B5+[7]	1.70%	1.63%	1.84%	1.19%	0.66%								7.21%
	Ibovespa[10]	-6.20%	9.97%	-0.84%	9.93%	-2.36%								9.79%

Since Inception		
	Fund	**8.12%**
	IPCA + IMA-B5+[7]	24.78%
	Ibovespa[10]	3.88%
	Small Caps[10]	-21.51%

Portfolio[2] (May 20th, 2015)

Sectors	% NAV
Long Exposure	**67%**
Banks	14%
Consumer & Retail	10%
Electric Utilities	7%
Financials	9%
Healthcare	8%
Malls	9%
Real Estate	10%
Short Exposure	**-4%**
Index Puts	-3%
Oil & Gas	-0.5%
Net Exposure	**64%**

Concentration	
Company positions	13
5 largest	45% of NAV
10 largest	69% of NAV

Liquidity

% NAV	Days[3]	Mkt Cap	% NAV	Volume/day	% NAV
30%	1	<R$1bi	0%	<R$2mm	0%
60%	1	R$1bi-5bi	13.5%	R$2-5mm	0.0%
90%	2	R$5bi-10bi	20.3%	R$5-10mm	12.5%
100%	7	>R$10bi	32.6%	>R$10mm	51.6%

Characteristics

Fund Inception	Oct 4th, 2013
Initial Investment and Min. Balance	R$ 50.000,00
Additional Min. Investment/Redemption	R$ 20.000,00
Investment Conversion	D+1
Redemption Conversion[4]	D+60
Redemption Payment[5]	D+63
Cut-off time	2pm
Management Fee[6]	2% p.a.
Performance Fee[7]	20% over IPCA + IMA-B5+
Income tax	15% over nominal gains
Current NAV - Avg NAV[8]	R$ 127MM - R$ 97MM
Strategy NAV[9]	R$ 172MM
Status	Open for subscriptions and redemptions
Manager	Vertra Capital Gestão de Recursos Ltda
Administrator	BNY Mellon DTVM Serviços Financeiros S.A.
Custodian	BNY Mellon Banco S.A.
Auditor	KPMG Auditores Independentes
Prospective Clients	"Qualified" Brazilian Investors (CVM 409)
Anbima Category	"Ações Livre"

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ANBIMA A presente instituição aderiu ao Código ANBIMA de Regulação e Melhores Práticas para os Fundos de Investimento.

*The numbers in this document were calculated at the close of May 20th, 2015.

1. Profitability is presented in BRL net of fees but not of taxes with inception date on October 4th, 2013. **2.** The Vertra FIC FIA fund invests, at least, 95% of its NAV in theVertra Master FIA fund. Data from the Vertra Master FIA portfolio. Due to rounding, calculations might not be replicated with accuracy. **3.** Business Days needed to convert the indicated percentual number into cash, negotiating 20% of the past 30-day negotiation average. **4.** Calendar days. There might be the possibility to convert redemptions in D+15 subject to an exit fee of 8%, credited to the fund, with payment in D+18 (3 business days after conversion). **5.** Redemption payment on the 3rd business day after converson. **6.** The Vertra FIC FIA fund charges a minimum management fee of 2% and maximum of 2.5% p.a, including invested funds fees. **7.** IPCA is the Brazilian Broad Consumer Price Index. IMA-B 5+ is an ANBIMA index that comprises Brazilian Treasury Inflation Protected Securities (NTN-B's) maturing in more than five years. The number used for performance benchmark will be updated at the beginning of every semester based on the arithmetic mean of the yields of the NTNB's of the IMA-B 5+ portfolio negotiated in the 3-month period before the start of the semester. For the first half of 2015, Vertra FIC FIA is charging performance over IPCA + 5.90% per annum. **8.** Average NAV since the fund inception in October 4th, 2013. **9.** Strategy NAV includes the NAV of Vertra Master FIA fund and Vertra Institucional Master FIA fund. **10.** Mere economic reference, and not a target or performance benchmark for the fund.