

São Paulo, February 28th 2013

Dear shareholders,

In 2012, Mosaico FIA has appreciated 43.21%, while the Bovespa index rose 7.40%. Since the fund's inception (July 2010) until the end of 2012 the Mosaico FIA had a cumulative return of 98.23%, versus a decline of 3.19% of the Bovespa index in the same period.

This was the best year in the history of the fund, not only for the highest return, but also by the consistency that we had during this period. In 2012, all 17 stocks in the portfolio appreciated. Moreover, we obtained a high return in the year, even though we have held a conservative cash position of about 16% of the fund (we will return to this point later).

The highlights of our portfolio have been our investments in the education sector (Estacio and Kroton), whose stocks have more than doubled in 2012. The sector has become our largest bet during the year, representing an average of about one fifth of the fund and backing 40% of our performance.

Behind the strong performance of the education companies, there was a combination of positive factors. The most important among them is the new program of government that provides finance to the postsecondary education of students enrolled at private institutions, the FIES. The favorable conditions of these loans allows tuition fees to fit into the pocket of most freshmen, avoiding on the other hand, many senior students to leave school for financial issues.

Furthermore, Kroton and Estacio are benefiting from the strong growth of Distance Learning (DL). In Estacio, during 2012, there was an increase of about 40% in the number of students enrolled in this modality. The DL has some advantages for student such as savings greater than 50% on tuition and the flexibility to be able to study much of the course from home, anytime. For universities, the balance is also very positive, not only by the large number of new students (most DL students are working adults and would not have condition to attend in a traditional college), but also by the huge savings in rental expenses and personal. A teacher, in some DL courses in Kroton, can teach 10,000 students at the same time!

- But what about the quality of distance learning?

While it is intuitive to imagine the DL as something as messy as was the old courses by mail, it is intriguing to note that, on average, students' grades in the DL have been higher than those on-campus. This is mainly due to the fact that DL students are more committed. Anyway, apparently the DL has been fulfilling its role.

A key factor in the successful outcome of our investment in education was that the initial

position started at a time when the sector stocks were down. We purchased most of our Estacio position in the end of 2011, the year that the company lost a third of its market value, reflecting the concern (excessive in our opinion) of investors with the defaults in the sector.

On the other hand, currently companies in the sector are far from bargains. Kroton, for example, became the second most valuable education company in the world. Therefore, despite the tailwind that continues blowing in favor of the sector, we reduced slightly our investment in education.

In last year's letter to our shareholders, we noted that we had 18% of the fund in cash, due to our concerns with the euro crisis. Fortunately, the single currency resisted for another year, despite the recession in the European periphery. The situation is still unstable, as can be seen by the recent political uncertainty in Italy. And it seems that the coming years will be of low growth and high unemployment in the PIIGS. However, the population of these countries gave firm demonstrations last year that is willing to go through hard periods to stay in the euro zone.

Now that the largest threat to world economy is reducing, you are probably wondering that our cash position has decreased, right? Wrong, unfortunately. We have reached 22% of the fund in cash in January, putting some of our profits in the pocket.

Our portfolio is in a harvest time. We are finishing reaping the rewards of our old investments, and looking for fertile land for a new cycle, which has not been an easy task.

The fact of the Bovespa has been down during the last three years creates the false impression that the stock market is cheap. However, this poor performance was highly concentrated in commodity companies, banks and homebuilders, whose fundamentals deteriorated in those years. Most companies focused on the domestic market and in the sectors where the government's interference is low are at their highs.

There is an explanation for much of this performance - the low interest rates in the world and Brazil is no longer the exception in this regard. The finance books teach us that the shares should rise as interest rates fall. This effect supplanted the low growth of the Brazilian economy last year, making even some companies that have had disappointing results to appreciate. It has been driving the profitability of the new stars of the market, the real estate funds. In addition, by the way, this effect gave a good enhancement in our performance.

What is important to bear in mind is that the positive effect of lower interest rates on the shares is transitory, as a fountain, that one day dries. What is left after the boom



are expectations of lower returns in the future. After all, one should not expect that a portfolio of rental properties (which is what comprises a real estate fund) should yield recurrent returns of 30% p.y.. Likewise, we should not expect the average return of Mosaico in the coming years to be as high as what we had since inception.

Given the expected return is lower both in the stock market and in the fixed income, why not assimilate this change and invest cash in stocks? After all, despite everything, they should yield more than the fixed income in the end. However, our reluctance to accept lower return expectations for stocks comes from our experience that drives us to be highly demanding in every investment, because good opportunities always rise.

In the end of last year, we had a new addition to the management of Mosaico, Rafael Maisonnave. Rafael is my college classmate and built his career in Patria and Tarpon, where until recently he was one of the portfolio managers. He holds in his curriculum a deep knowledge of stock management, private equity experience, participation in boards (as in Marisa) as well as experience as a senior manager in leading consumer companies (as in Arezzo and Casa do Pão de Queijo). We are creating together a new management company, Mosaico Capital, which by the end of the semester will be in charge of the Mosaico FIA.

Once the transition is concluded, we will be very happy to host your visit in our new home!

Sincerely,

Roberto Knoepfelmacher

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