

São Paulo, January 10th 2012

Dear shareholders,

In 2011 Mosaico FIA had a slight depreciation of 0.2% while the Bovespa index declined 18.1%.

Reviewing the past year brings us mixed feelings. We are not happy with the stagnation of our NAV. On the other hand, we are pleased to have been able to preserve our capital during a very difficult year for the economy and particularly for the Stock Market.

There is an interesting coincidence in the way that our results were built last year as well as in 2010. In both years, the "hero" and "villain" of our profitability were the same companies: respectively Le Lis Blanc and Gerdau. The two companies were among our largest holdings over these two years. However, Le Lis increased 175% in 2010 and 60% in 2011, while Gerdau bitter dropped 20% and 33% respectively.

Looking into this discrepancy we seek an answer to one of the most intriguing questions about investments in stock markets. The question is: What makes a company be constantly a great business? Having a strong brand is one of the best explanations.

Just observe, year after year, the return on capital of companies listed in the Bovespa Index and one always verify that the top of the list companies are owners of very strong brands such as AmBev, Souza Cruz and Natura. And in that sense, the difference between Gerdau and Le Lis is water to wine. While Gerdau produces a commodity (steel) without any appeal, the Brand concept is always used to describe Le Lis Blanc.

Of course there are other ways to achieve excellent returns, in addition to the brand. Gerdau alone was champion during the entire past decade as one of the most profitable companies in the Stock Market. This status was conquered through competent management and multifold strategic achievements. Last but not least, there were strong positive aspects generated by a rare moment of global exuberance within the steel industry.

However, the tail winds for the steel sector ceased as the global economy slowed. We, and also Gerdau have believed that its numerous competitive advantages would to some extent shield the company towards the plunge which this sector is experiencing globally, as it happens with strong brands. But in the end, this case has proven to be a mild version of Warren Buffett's words, who says: "when a management with a reputation for brilliance faces a business reputed as weak in economic fundamentals, it is the reputation of the business that remains intact."

However, we believe that everything has a price. Whether a company is a good business is just the beginning of the analysis. Considering stocks, as in many other purchasing decisions, what matters is the cost / benefit relation. That's why we have pocketed a big portion of our position with Le Lis Blanc, despite the virtues of this company. And for the

same reason, we kept a portion of our position in Gerdau, given that its market cap is below the liquidation value of the company.

Therefore, as Gerdau and Le Lis are no longer among our key positions, which is the biggest bet of the fund now? The answer is Tegma. Our more attentive readers may remember that this position gave us major positive contributions to our 2010 results. And just as we did recently with Le Lis Blanc, we reduced our exposure in Tegma later that year as we believed its share price was close to fair value.

However, last August, after a stumbling passage in quarterly results, the share reached a 25% fall in the year. On the other hand, in our opinion, the fair value of the company had risen significantly (I'll talk about that soon). At this point of time we found the opportunity had arrived to put Tegma back on top of our portfolio.

But ultimately who is Tegma? It is Brazilian market leader in new vehicles transportation, therefore responsible for transporting over 30% passenger cars produced by local manufacturers to the dealers. It might not sound glamorous, but it is an excellent business. As a matter of fact Tegma works as an agent for truckers. Rather than having its own fleet, they subcontract owner operators. Thus, the company has a low investment, but remains with about 40% of the freight. The result of this equation is a return on capital higher than 30% per year.

The main competitive advantage is the operational scale that Tegma has achieved. Due to the fact that they controls a big part of the orders placed by the automakers, it can organize the routes within the large Brazilian territory so as to grant competitive fares for their customers, ensuring at the same time, that the truck owner operators will always travel full.

The brand is not one of the strengths of Tegma. But the company fits in another category of business champions within the Stock market, which is service providing. Other good examples of this segment are the acquirer Redecard as well as software producer Totvs.

In March 2011, Tegma made a valuable acquisition. They purchased Direct Express, which is one of the leaders in providing logistic services for the e-commerce sector in Brazil.

With the rapid growth of e-commerce (34% pa over the last 5 years), delivery logistics has become the Achilles heel of these retailers. At Christmas 2010, for example, there were many news in the media covering claims of angry consumers for not having received their gifts in time. At year-end Direct Express managed to deliver over 95% of its orders in time, proving to be one of the most reliable companies in the segment.

Direct Express follows the Tegma profitable model, in which most of the fleet of couriers is outsourced and investments are low. However the difference to the original business of Tegma is growth. While the sale of vehicles should follow the general evolution of the economy, e-commerce promises to grow about 20% per year this decade.

Additionally, Tegma announced today that it is in the process of acquiring another e-commerce logistics company called LTD. This acquisition should complete the range of services offered by Tegma within the retail segment. LTD is specialized in the delivery of larger volumes (such as home appliances) while Direct Express is focused on light parcels (below 30 kg).

It is said that during the American gold rush, the real money makers were the suppliers of shovels. Likewise, we believe that Tegma will be among the biggest beneficiaries by the wave of e-commerce.

Another important change in our portfolio is that we have approximately 18% of the fund in cash. This is an unusual circumstance taking into consideration our long term optimism towards the Stock Market and the Brazilian economy. The main explanation for this is an old joke that says, "All I want to know is where I will die, so I will never go there." Behind this phrase is a concept that always guides our investment strategy, which is to think the worst and prepare to avoid it.

Although we devote most of our time to the study of the day-to-day business of the companies, we are not oblivious to macroeconomic issues. And in this context are still fresh in our memories the crises that led to the devaluation of the Brazilian Real and Argentine Peso, in addition to austerity measures to avoid such devaluations, which were as ineffective as bloodletting practiced by medieval doctors.

The Euro crisis has a very similar nature to those episodes. The origin of the problem is the rising cost of living in a country that has a fixed exchange rate and receives excessive foreign investment. But there is a difference, which by the way is not very subtle, in this case: the European periphery no longer has its own currency to devalue. In addition, measures that could mitigate the crisis (eg, provide a fiscal union in Europe) are not in the hands of the countries with problems, and undergo extremely complicated political processes. These processes depend on the referendum or by parliamentary approval of the 17 member countries of the Eurozone, including its large creditor, Germany.

Therefore, the solutions to the European problems are not clear. And a scenario marked by uncontrolled exit of some countries within the European Union, reintroducing their extinct currencies while declaring a moratorium on its debts is not impossible. The problem is that Italy and Spain might be included in this list. These countries are among the world's biggest economies, and together have public debts of \$ 3 trillion. A default of this magnitude can decimate European banks and throw the world economy into a new recession.

The economist and Nobel laureate Paul Samuelson would say ironically that financial markets accurately predicted nine of the last five recessions. We are hoping for the current crisis falls as one more of these shots into the water, but at the same time we prepared our fund to navigate well in any situation (even in storms).

To conclude, we would like to stress that, despite uncertainties in the global economy, we remain very excited about the long term prospect of Mosaico FIA. Our equity portfolio



consists of a collection of excellent companies led by honest and competent managers, and they are trading well below their fair value. We have great confidence that this combination will bring a differentiated return in time.

We wish everyone a great 2012!

Sincerely,

Roberto Knoepfelmacher

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