

São Paulo, January 14th 2011

Dear shareholders,

2010 was Mosaico FIA's first year. We can say that we got off on the right foot. Our NAV has increased 38.5%<sup>1</sup> over the year while the Bovespa index rose 1.0%.

However, when I think of our performance in 2010, it comes to mind a phrase from the American actor Jack Benny upon receiving an acting award. Jack said: "I do not deserve this award, but I'll accept it. After all, I have arthritis, which is something I don't deserve either. "

The analogy is the following: although our return in 2010 is very welcome, it should be viewed with some parsimony.

Firstly, our comparison base, the Bovespa, was an anemic opponent during the year. The index return was greatly affected by the negative performance of a few companies, notably Petrobras which is the second highest weight in the Bovespa index, whose shares fell more than 23%. If Petrobras did not participate in the index, the Bovespa would have had an appreciation of around 5% in 2010. If we also exclude from the Bovespa the shares of the Telemar group and the steel and meat processing sectors, the index would have risen about 10%. A more realistic comparison of our performance in 2010 would be the small-caps index, which has risen 22.8%.

In addition, we have taken a bit of luck. Our main holdings had much better results than we and the market expected. Three of our top four positions during the year (Tegma, Le Lis Blanc and Tarpon) should have earnings that are 80% higher than we initially projected for 2010. Consequently, this trio's shares had an average increase of 147% during the year. It is true that we also had negative surprises, as the disappointing results of Gerdau and the frustrated merger of Brazil Telecom with Oi. However, it is fair to say that 2010 was a year that we had more "unexpected awards" than "diagnoses of arthritis." And, although our conservative profile is designed to avoid bad news, we should hardly enjoy such a favorable "star alignment" in the coming years.

But then what are we doing to have a differentiated performance in the long-term?

As mentioned above, the perception that the Brazilian stock market has not appreciated in 2010 (and therefore is selling cheap) is a false impression created by the poor performance of Petrobras and alike. In reality, it is more difficult to find good investment

---

<sup>1</sup> Mosaico FIA was created on July 12, 2010 through the transformation of the GCA Investment Club in a fund. The performance mentioned above starts in December 30, 2009, as it considers as ground zero the moment I started managing GCA in a totally independent way. Previously, GCA was managed by GAS Investimentos' research team, of which I was part. The profitability Mosaico FIA between July 12 and December 30, 2010 was 38.71% while the Bovespa index has increased 10.08%.

ideas now than a year ago, when prices of many stocks were depreciated, and still reflected the exaggerated pessimism from the 2008 crisis. This is especially true for our main investment focus, small caps that went public in recent years.

This harder condition in our original habitat, led us to introduce some changes to adapt to the new times. Gradually, we have reduced our positions that appreciated the most. For example: from the trio previously mentioned, only Le Lis Blanc remains among our largest holdings. The other two (Tegma and Tarpon) became intermediary positions because, even though they are no longer bargains, they are still among the best business in the Brazilian market.

In addition, we are recently finding more easily investment opportunities among the larger companies. Some of them are among the villains of the Bovespa Index profitability in 2010. This is the case of Gerdau, which is currently our largest holding, with about 16% of our fund.

The fact that we manage a small sum of money gives us an advantage Gerdau's investment, because we are positioned in the voting shares of the holding company that controls Gerdau. In this holding the trading volume is lower but more than enough for us. On the other hand, our position has an average discount of about 30% compared to the traditional stock of Gerdau.

However, buying a stock just because of its holding discount would sound as unwise as the story of a man who found a button and for this only reason had a suit tailored. Indeed, we observed many other attributes in Gerdau. With over one hundred years of history, the company became the second largest long steel producer in the world. And despite belonging to a cyclical industry, Gerdau has never had a year of net loss. In 2010, a number of negative factors hit the company's profit expectations. Some of these factors are structural problems such as the Real appreciation. Others, in our opinion, are transitory, such as the surge of steel imports in Brazil, weak U.S. demand and low profitability of the global steel industry. But investors' frustration with Gerdau's results led its stock to trade below its liquidity value, which seemed to us at the same time something unreasonable and a good time to add to our position.

In second place in terms of size in our portfolio we have a tie: both Le Lis and Globex have a 10% stake. I'll stick to Globex, given that we have already discussed Le Lis' case in our July presentation. The story of Globex begins with a paradox: This company should be among the 15 largest non-financial companies on the Brazilian stock market in 2011, with revenues exceeding R\$ 20 billion. On the other hand, its daily liquidity is so low (measly R\$ 40,000 / day), that eventually turns Globex story into something unknown or overlooked by most investors.

But, after all, what is Globex? This is the official name of Ponto Frio, a traditional electronics retailer that was controlled by Mrs. Lily Safra. In 2009, the company was acquired by Grupo Pão de Açúcar. Due to the change of control, a tag-along offer was made to purchase the minority shareholders, which had a massive adhesion. After the



offer, the stake of Pão de Açúcar in the company reached 98.3% of the capital, which explains the current low trading volume.

In December 2009, it was announced the association between Ponto Frio and Casas Bahia. The agreement created a giant in the sector. Together the two companies have the leadership of the Brazilian electronic appliance retail with a market-share of 23%, four times higher than the second player. Additionally, the resulting company was raised to the 10th place in the world ranking of retailers in its category.

Maybe two years from now there will be a new IPO of Globex, when the Klein family, former owner of Casas Bahia, will sell part of its shares, cashing in a significant share of the value created by two generations of proficient dealers. But until then, so that Kleins can do another good deal (and hopefully we as well), improvements should be made in the new Globex. The additional value creation will come from various fronts, such as: increased bargaining power in procurement of goods, the downsizing of redundant personnel, the development of an e-commerce business that will be one of the leading electronic retail in Brazil and a financial agreement with a bank that will explore the customer base of Casas Bahia for a range of services, from lending to selling insurance.

It is important to highlight, however, that there are plenty of risks in this investment case. The electronic retail is extremely sensitive to fluctuations in the economy, competition is tough and, above all, the turn-around of the company depends on a harmonious relationship between their two controlling shareholders. One should bear in mind that the Kleins threatened to undo the deal in the first half of 2010, something that was solved with a renegotiation of the initial terms.

But, despite all this, we believe that the path to the alignment of interests brings so many benefits to both parties, which undoubtedly is the most likely. Furthermore, the scenario in which things will work creates so much value for us, that it pays-off for not only the risks already mentioned as for the fact that we are tied in in a stock with very low liquidity.

To conclude, despite the increased challenge that a relatively expensive Ibovespa offers to us, we have great confidence in the long-term prospects of our portfolio. Our enthusiasm with the other shares of our portfolio is as great as with the examples mentioned here and they have only been omitted from this letter not to make it too long.

That 2011 maybe a year full of successes for us and our shareholders.

Thanks for the confidence,

Roberto Knoepfelmacher



## Disclaimer

This document is published exclusively for the purpose of providing information and conferring transparency to the management carried out by Mosaico Capital, is not the Offering Memorandum of the Mosaico FIA ("Fund") and is not to be considered as an offer for the sale of Shares of the Fund or of any other security.

Before subscribing for the Shares, each prospective investor should (i) carefully read and retain the Offering Memorandum of the Fund; (ii) consult with his/her/its own counsel and advisors as to all legal, tax, regulatory, financial and related matters concerning an investment in the Fund.

Past performance does not guarantee future results. Mosaico Capital takes no responsibility for the accidental publication of incorrect information, nor for investment decisions taken based on this material. Access to this document or use of the services or information provided herein is prohibited by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law, rule or regulation.