3rd Annual Letter March | 2024

Norte Asset

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NORTE
asset management

Dear Investors,

We have completed, at the end of January, our first 36 months of history, an important milestone for any asset management company.

Even though 2023 was the third consecutive year in which the fund industry suffered significant redemptions, we continued to grow and reached approximately BRL 1.5 billion in assets under management in our funds. Our team ended January with 22 professionals, with 13 members dedicated to the investment team.

We continue to improve our communication, discussion and analysis process within the team. Our collaborative culture, with a single book structure aligned with our investors, and our continuous debate about the macro scenario and its respective impacts on sectors and companies, remain as the pillars of our risk allocation definition process.

The year 2023 wasn´t less challenging than previous ones. The capacity to accurately read macro indicators, both in Brazil and abroad, proved even more critical last year due to the dynamics of the political environment in the first year of the new government's mandate, the micro sectoral impacts from reforms and fiscal measures implemented throughout the year, the beginning of the interest rate cutting cycle in Brazil, the continuation of the interest rate hiking cycle in the United States, the American regional banks crisis, the war in the Middle East, among others.

Therefore, we always maintain our diligence, pragmatism, and humility to react quickly to each change in the scenario, adjusting the portfolio to the current environment.

Performance Summary

All our funds once again outperformed their respective benchmarks in 2023, and we concluded the 36-months period of Norte Long Bias and the 30-months period of Long Only Funds in the 1st quartile of the industry.

Norte Long Bias, our first fund, concluded its first 3 years with a return of 44.26% versus 11.02% for the Ibovespa, -19.32% for the Small Cap Index, and 42.57% for the benchmark (IPCA+Yield IMA-B). In 2023, the Fund returned 12.49% against 10.61% for the benchmark (IPCA+Yield IMA-B), 22.28% for the Ibovespa, and 17.12% for the Small Cap Index.

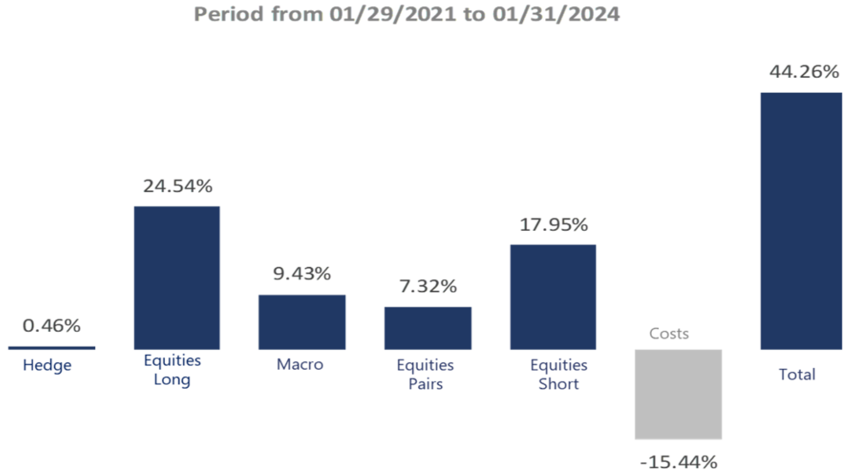
The Norte Long Only, Norte Previdência, and Norte Institucional Funds concluded these 30 months with returns of 9.68%, 13.71%, and 5.99%, respectively, while the Ibovespa appreciated 4.89% and the Small Cap Index returned -25.78%. In 2023, they returned 23.92%, 26.42%, and 22.51%, respectively, versus 22.28% of the Ibovespa and 17.12% of the Small Cap Index.

The purpose of this letter is to analyze our accumulated performance over the 3 years of Norte Asset's history, providing an accountability of 2023 and discussing our outlook for 2024.

Performance Over 36 Months - Norte Long Bias

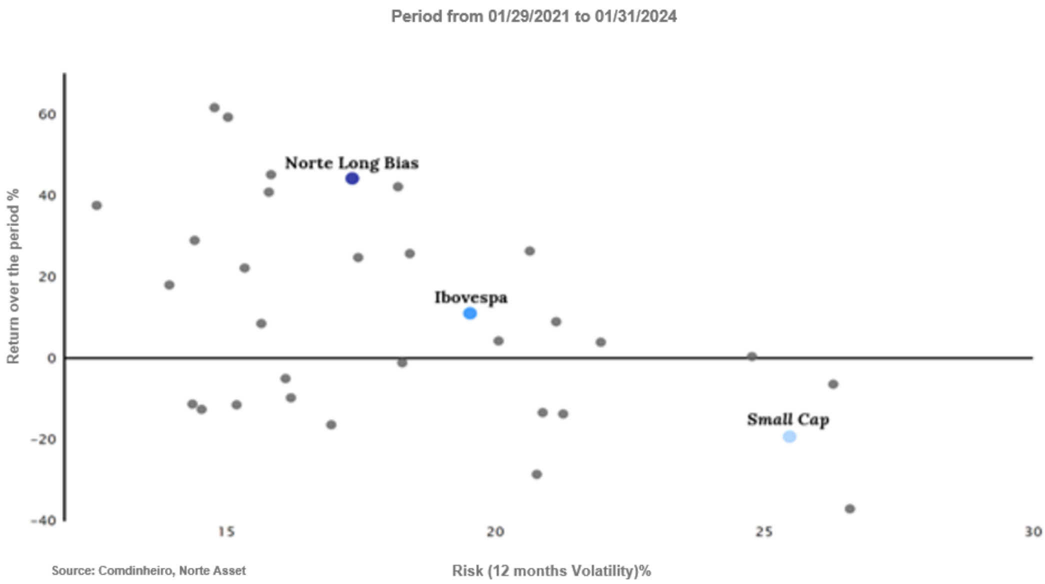
There are several ways to analyze the performance of Norte Long Bias over its 36 months of history. In addition to simply looking at the final return figure of 44.26% versus 11.02% of the Ibovespa and 42.57% of the benchmark (IPCA + weighted average of the IMA-B yield), we like to evaluate the fund's performance by strategy, by our capture ratio and our risk-return ratio compared to the industry and stock indexes, and to measure the correlation of the fund's share price evolution with the performance of the Ibovespa and the Small Cap Index.

The chart below describes the performance attribution by strategy over these 3 years of Norte Long Bias:



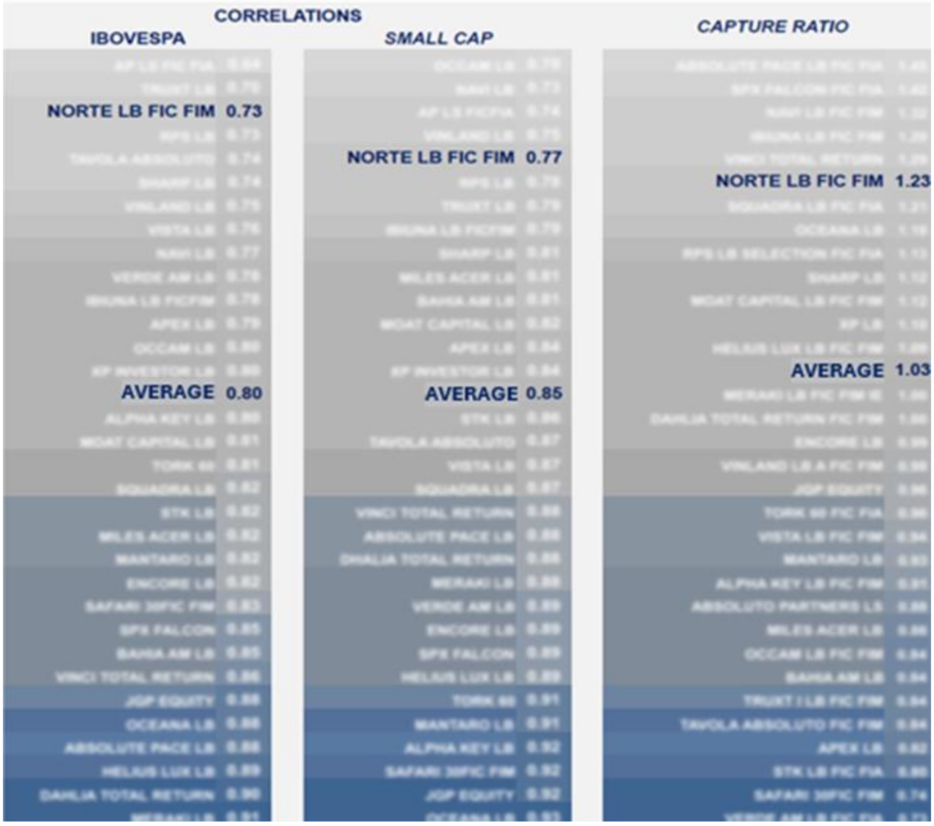
It is important to note that all strategies contributed positively to the fund's performance, both on the long and short sides, as well as in macro, relative pairs, long short, and arbitrages. Even the hedge strategy, which includes protection structures for the fund, achieved a positive return in this period.

Another analysis worth highlighting is our risk-return ratio measured by the fund's annual volatility versus its performance compared to peers and market indexes.



As shown in the chart above, Norte Long Bias was in the upper left quadrant, indicating it was among the funds with the highest returns and lowest volatility during the analyzed period.

We added to this analysis the correlation tables with the Ibovespa and Small Cap indexes, as well as the capture ratio, the ratio of how much we captured of the Ibovespa's rises and falls daily over these 3 years.



Analyzing the comparative tables, Norte Long Bias is among the funds with the lowest correlation with the Ibovespa and Small Cap indexes and among the funds with the highest capture ratio in the industry.

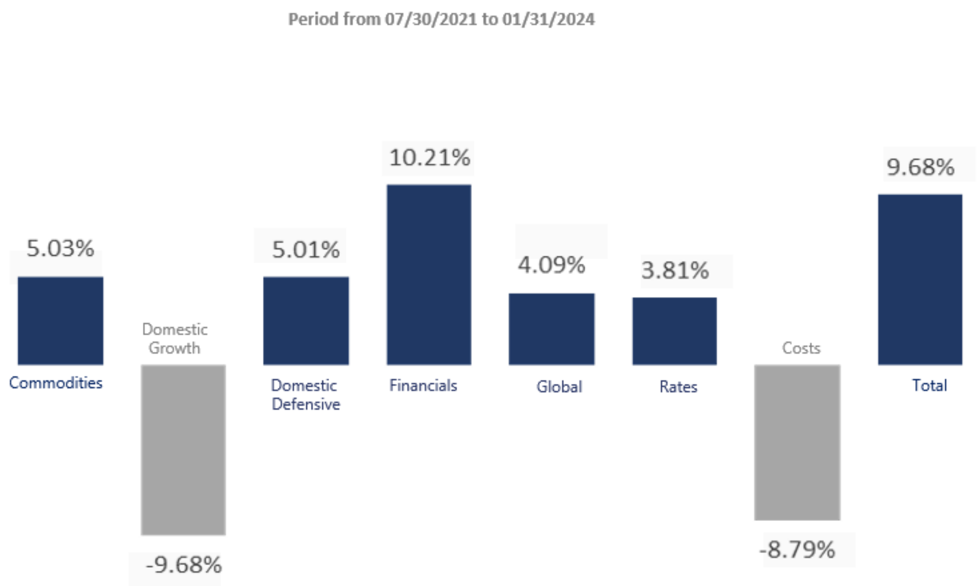
In conclusion, during these initial 36-months, Norte Long Bias stood out with one of the highest returns, placing itself in the 1st quartile of its category, achieving diversified gains across all its strategies, presenting a high capture ratio, a low correlation with market indexes, and a volatility below the industry average and the Ibovespa. This combination of results leaves us satisfied and gives us the conviction that we are on the right path.

Performance Over 30 Months - Norte Long Only, Norte Previdência, and Norte Institucional

Our Long Only funds concluded this challenging market period in the 1st quartile of the industry, outperforming the Ibovespa during the period. The returns of Norte Long Only, Previdência, and Institucional were 9.68%, 13.71%, and 5.99%, respectively, versus 4.89% for the Ibovespa and -25.78% for the Small Cap Index during these 30 months.

All follow the same sectoral allocation as the Norte Long Bias Fund, only without the shorts, pairs, and macro strategies. Norte Institucional does not have positions in the offshore market. Additionally, we also considered the high weight of commodities and financials in the Ibovespa, the benchmark for our long only funds, to make a slight relative adjustment in the portfolio.

The sectoral performance attribution of Norte Long Only during the period is described in the chart below:



As shown in the chart above, the main detractor of performance was the domestic growth sector, which is not surprising given that it was the most impacted sector by the interest rate hikes since mid-2021 and the largest contributor to the negative performance of the Small Cap Index during the period.

2023 Performance – Norte Long Bias

The year 2023 was like 2022 in one aspect: market mood and risk appetite changed almost every quarter.

This makes active risk management with a broad mandate but more concentrated in equities and with an IPCA + IMA-B yield as benchmark more challenging. If the fund is not correctly positioned during these market shifts, it can miss a good upward movement or suffer significantly in a larger downturn, being forced to reduce risk during a market decline.

In 2022, we navigated this volatile environment more assertively and had an excellent performance with a return of 27.93%.

In 2023, we performed well in the first half but not as well in the second half of the year as we did not anticipate the deterioration in US Treasuries from August to the end of October. We expected that the US economic inflation and employment numbers, which were weaker only in November, would have already pointed to a slowdown by September or October.

Additionally, the retail sector suffered from the government's initial proposals to end some tax exemptions and tax credits related to deemed taxable income.

Thus, the fund had a soft performance from August to October as we were holding large positions at the time, expecting the start of the interest rate cutting cycle by COPOM (the Monetary Policy Committee of the Brazilian Central Bank) in early August and expecting an end to the US interest rate hiking cycle. We reduced our risk, out of discipline, in October, and began adding long positions again in early November after the FOMC (Federal Open Market Committee of the US Federal Reserve) meeting and weaker US job creation numbers.

Given this context, Norte Long Bias returned 12.49% in 2023, beating the benchmark, which rose 10.61%, but falling short of the Ibovespa, which returned 22.28%.

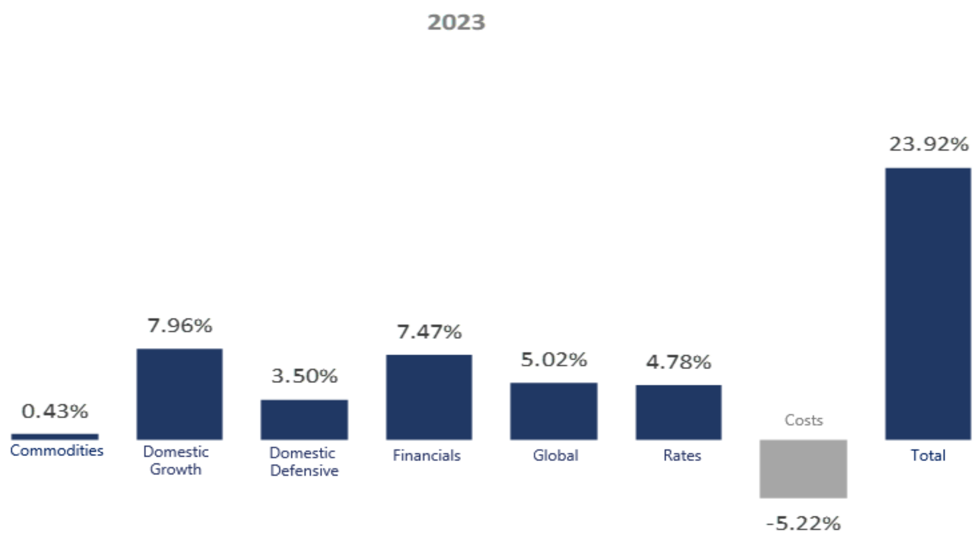
In the **Appendix**, we describe our main hits and misses in 2023.

2023 Performance - Norte Long Only, Norte Previdência, and Norte Institucional

All our Long Only funds outperformed the Ibovespa last year.

Norte Long Only, Norte Previdência, and Norte Institucional returned 23.92%, 26.42%, and 22.51%, respectively, versus 22.28% for the Ibovespa and 17.12% for the Small Cap Index.

The following chart shows the sectoral breakdown of Norte Long Only's return last year. There were positive contributions from all sectors, with the lower contribution from commodities relative to the Ibovespa being compensated mainly by domestic growth and financials.



2023 Retrospective and Outlook for 2024

The year 2023 was marked by a sharp decline in inflation rates in both developed and emerging countries. This disinflation movement occurred despite a context of strong activity and a tight labor market, especially in the United States, significantly increasing the probability of a soft landing for the US economy. In this context of falling inflation, some emerging countries have already started an interest rate cutting cycle, and major central banks in developed countries are signaling that they have concluded the hiking cycle and are beginning to discuss the ideal timing to start reducing interest rates.

Given this dynamic disinflationary, we believe the Fed should start the interest rate cutting cycle around mid-year, as the falling inflation is driving the real interest rate to restrictive levels, and activity data is likely to show a marginal slowdown despite remaining at quite positive levels. Additionally, in China, government stimulus measures are expected to enable growth slightly below 5% despite uncertainties in the real estate market. These dynamic interest rate cuts, along with still favorable growth prospects, tend to benefit the performance of risk assets.

In the domestic market, last year began with high uncertainty regarding the fiscal policy to be adopted by the government, especially after the announcement of a spending plan for 2023 higher than market expectations. However, the announcement of the new fiscal framework, even if not considered the best possible structure, provided guidelines for spending limits and the Ministry of Finance's clear commitment to achieving the fiscal targets were factors that helped to reduce uncertainties throughout the year. Additionally, economic data surprised positively with upward revisions in GDP, higher trade balance and lower inflation. At the beginning of the year, GDP growth forecasts for 2023 were 0.8%, ending the year at 2.9%. For inflation, early year projections were 5.4% for 2023, closing the year at 4.6%. Furthermore, the development of the agricultural and oil exploration sectors indicates a structural improvement in our trade balance, which recorded nearly USD 100 billion surplus in 2023. In this context of improving inflation, the Brazilian Central Bank, which had initiated the interest rate hiking cycle earlier than most central banks, was also one of the first to start cutting rates.

Despite the Copom having already reduced the Selic rate by 2.5%, the real interest rate level remains high, allowing the Brazilian Central Bank to continue cutting rates to a level close to 9%. This terminal rate considers a benign inflation dynamic, with the Central Bank maintaining a slightly above-neutral interest rate due to the risk of some resilience in service inflation, alongside long-term expectations slightly above the target and a positive context for economic growth. The expected global scenario, along with the Central Bank's interest rate cutting cycle and the structural improvement in the trade balance positively impacting the Brazilian Real, tends to favor domestic assets.

Main structural bets of the Long Equities strategy

Sabesp

We remain invested in Sabesp, believing that there is still significant value asymmetry to be captured with the company's privatization process. The publication of the public consultation regarding the regulatory model of the new concession contracts makes us optimistic about the company's potential to capture efficiencies from operational cost cuts over the tariff revision cycles. Therefore, we believe that as Sabesp becomes a more efficient company, it could trade at a multiple above the value of its asset base, given that the return on invested capital should exceed the regulatory cost of capital. Currently, we calculate that the company's stock value implies an asset base multiple closer to 0.85.

Itaú

It remains one of the fund's main positions due to a combination of valuation, risk, and excellent business prospects for this year. Itaú has been more successful than its direct competitors in credit management during the pandemic and subsequently. Also, Itaú has been increasingly evolving its strategy to improve service quality and customer perception, enabling greater cross-sell and a permanent agenda of sustainable growth in credit and different business lines such as insurance, investments, and acquiring. The significant investment in technology has shortened response times and allowed for a more assertive competitive approach. This cultural transformation has been achieved with earnings growing above 10%, delivering a return on equity above 20% and increasing dividend distribution.

Eletrobras

We remain confident in the Eletrobras investment thesis, as we believe there are significant long-term value generation opportunities for the company. The executives of the privatized company remain committed to the cost-cutting agenda and reducing liabilities related to compulsory loans. Additionally, we view the management's strategy to divest from non-strategic assets as an additional value creation lever. Finally, we calculate that Eletrobras shares have an implied real return rate of approximately 14%, which represents a considerable premium over NTN-Bs.

XP

The strong growth of money migration from incumbent banks to XP and new entrants lost momentum during the SELIC rate hike cycle from 2% to 13.75%. The increased demand for fixed-income products allowed banks to offer a wide range of LCI, LCA, and LIG products (fixed income assets). The stock of these products grew by around BRL 460 billion from 2021 to 2023. The start of the SELIC rate cutting cycle, coupled with restrictions on the issuance of fixed income products with tax incentives, should allow XP to gain competitiveness in product offerings and resume its asset base growth. We believe that revenue acceleration, combined with greater efficiency in expenses, should bring significant operational leverage to the company, which will expand margins and returns.

Santos Brasil

Santos Brasil holds the main container terminal at the Port of Santos, with a market share of approximately 40% of the total volume handled annually. Historically, the company has recorded operational growth higher than GDP, and the fact that the Brazilian economy grew by 2.9% in 2023 while Tecon Santos retracted by 6.2% leaves us optimistic about the potential for volume growth in 2024. We also believe that the need for new storages in important local supply chains will boost the imports container mix, which gives Santos Brasil the right to charge for additional services. This situation, coupled with the fact that 2024 will be impacted by the new tariff negotiated last year with the company's main client, makes us confident about the expansion of its operational results. Finally, Santos Brasil has an implied market value of approximately seven times its EBITDA, while global port operators trade between 10x and 11x EBITDA. We believe that Tecon Santos' operational excellence should help to reduce this discount.

Vibra

We believe that the fuel distribution sector has entered a period of more attractive margins and returns compared to the last 3 years. This improvement will occur due to access to cheaper molecules (either via Petrobrás or Russian diesel) and the rationality of the main players, who today focus on margins and not just volumes. On the micro side, we see Vibra as substantially discounted compared to its main competitors, giving us confidence that the market still underestimates the company's margin expansion.

Suzano

Our optimistic view on Suzano is due to 3 main reasons: (i) Suzano will undergo a transformational year in 2024 with the start of the Cerrado project, which will add approximately 25% to its capacity with the most competitive cost in its asset portfolio; (ii) We have a more optimistic view than the market on the sustainability of pulp prices. Based on our analysis, the supply and demand dynamics will be healthy for the next 3 years, and any new projects that may arise will have higher incentive prices than in the recent past, given cost and capex inflation; (iii) In this scenario, we see the possibility of the company generating an annual free cash flow yield of 15%.

Direcional

We remain confident in the real estate sector in 2024. In the low-income construction segment, we continue to hold a position in Direcional, a company that has delivered results above expectations since we initiated our position. We expect strong revenue growth considering the growth of launches already made, impacting future profits (we project profit growth above 30% from 2022 to 2025) combined with a valuation we still consider very attractive.

Cyrela

In the mid- and high-income real estate sector, a direct beneficiary of falling interest rates, we maintain a position in Cyrela, a company that has consistently outperformed its peers operationally in this cycle (launches grew 7% and sales 12%, with gross margin expanding 3% in 2023) and has structural advantages in products, sales force, and size. We see the company trading at attractive valuation multiples with room for re-rating given its better execution, market positioning, and stock liquidity.

Iguatemi

In the malls sector, our main position is Iguatemi, a company with AAA shopping centers, primarily supported by a valuation we consider very attractive. We see the company trading at a cap rate of 13% (versus transactions in the private market with shopping centers we consider less attractive at approximately 8.5% cap rate) with a premium shopping center portfolio showing low vacancies (5.5% in the fourth quarter of 2023) and retailer sales growth above the market.

Arezzo + Soma

Arezzo remains a structural position for Norte for the year, and we see the merger with Grupo Soma as transformational. We believe that the combined company has unique talents that will be better utilized together and that most of the synergies (cross-selling, costs, production) are not yet priced in by the market.

Ânima

Throughout its history, Ânima has always stood out as an educational company committed to service quality with the noble mission of providing excellent education on a large scale. The acquisition of Laureate at the end of 2019 allowed the company to significantly expand its operations and student base. However, the pandemic also brought operational and financial challenges. It was a "perfect storm": a complex integration that worsened its process management and controls during a period of demand contraction and rising interest rates. After a difficult start in 2023, some management changes and a greater sense of urgency in the board of directors, the company ended the year very differently from how it began. Financial planning with austerity in working capital, expenses, and investments has allowed considerable cash generation growth, expanding margins in recent quarters, and improving prospects for 2024.

Global

We remain convinced of the 3 investment theses in the technology sector with Meta, Nvidia, and Uber. We continue to see Meta as an excellent alternative as it combines value and growth after overcoming major issues in 2022 by addressing cost-cutting opportunities that materialized, as well as having a differentiated competitive position. Nvidia is one of the biggest highlights, if not the biggest, among the main beneficiaries of the AI era boom. Uber has several advantages, starting with a management team we greatly admire, a unique competitive position, and a focus on profitability and cash generation with operational leverage.

Regards

We extend our gratitude to all our clients for their support and trust in our work! We have reached this point because of your support! We are just in the beginning of our journey and remain focused, humble, and working hard to honor the capital invested in our funds by delivering excellent returns to our investors! This is our North (motto)!

The North is upwards⬆!!

Norte Asset Team

APPENDIX – 2023 *Performance Report for Norte Long Bias*

MACRO

The macro strategy contributed to a positive performance of 1.4%. In a difficult year for macro positions with strong narrative changes throughout the period, we managed to avoid losses in these directional changes and capture alpha at times when we saw attractive prices despite market volatility. At the beginning of the year, even with uncertainties regarding the fiscal stance to be adopted by the government, we believed that the local interest rate curve presented a significant premium and that the interest rate cutting cycle could start sooner than the market priced if the fiscal dynamic did not deteriorate significantly. In this sense, we gained from both directional and relative value positions that benefited from the start of the interest rate cutting cycle. Additionally, we also gained from a tactical position that benefited from the rise in fixed-rate bonds in the United States. With the onset of news about regional banks in the United States, we chose to reduce our short positions in treasuries, and after the significant rate drop due to the adverse scenario for regional banks, we rebuilt short positions, believing that the move had been exaggerated, especially after the announcement of significant liquidity measures by the Fed. Lastly, it is worth mentioning the relative value position, long in higher carry currencies (Brazilian Real and Mexican Peso) and short in the US Dollar and the Euro. In addition to the interest rate differential, the Brazilian Real and the Mexican Peso also benefited from the strong improvement in the trade balance and nearshoring, respectively.

EQUITIES

Equity strategies contributed with a positive performance of 14% last year.

Below, we detail the main positive and negative contributors to last year's performance.

Financials

Throughout 2023, we maintained a significant long position (between 6% and 10%) in Itaú, which contributed 3.93% to the fund's performance. Even during a period of transition and adjustments characterized by weak credit growth amid rising defaults in the system, the bank delivered solid performance superior to its peers, with profit growth of 16% and return expansion. As a result, the bank enters 2024 with controlled defaults and a well-established strategic position to capitalize on the benefits of credit reacceleration that has been underway since the end of 2023.

As mentioned in the annual letter for 2022, Banco do Brasil was one of our convictions for 2023. We highlighted that the new management of the bank would be responsible and continue delivering profitability above the cost of capital. This indeed occurred. There was profitability expansion, with ROE reaching 21.6%, and the bank delivered the highest return among major banks. This position contributed 2.82% to the fund.

We believe that the acquiring sector has regulatory uncertainties and a highly volatile competitive dynamic, so we invest in the sector more tactically and selectively. This year was an example of this, as we achieved significant gains in long positions in companies like Cielo, Stone, and PagBank, which combined contributed 1.29% to the fund's performance. Most of our results came at the end of the year after we observed a reduction in regulatory change risks, as well as a significant improvement in the total transaction volume (TPV) outlook. This dynamic, coupled with price stability despite the SELIC rate drop, led us to adopt a more optimistic stance on the sector.

Both long and short positions in XP yielded 1.75% to the fund. XP, a high-growth company, has been consistently increasing its market share in the investment sector. From 2018 to 2022, its revenue more than tripled, reaching BRL 14 billion. During this period, the company also expanded its team from just over 1,700 employees to nearly 7,000. However, with the SELIC rate hike, there was a significant slowdown in revenue growth, highlighting the need for the company to optimize its cost structure. We built our long position when we noticed that the company was redirecting its efforts to increase efficiency, reducing the number of new initiatives and employees, and focusing on improving profitability.

Rates

In the interest rate linked companies' sector, Malls were an important contributor in 2023, with a result of 1.40%, mainly through long positions in Iguatemi and Aliansce. The sector proved more resilient than retail due to the absence of tax discussions, good operational execution, and companies presenting extremely attractive valuations.

Sabesp is a position we have maintained in the portfolio since 2022, believing there was still positive asymmetry to be captured. The company's stock was trading at a multiple of approximately 0.7 times the value of its asset base, while private sector electric companies trade on average above 1.5 times this value. Sabesp's stock should therefore converge to a higher multiple in relation to the asset base as the privatization process advances and the cost-cutting initiatives by the company's new executives begin to take effect. Although the regulatory framework was only made public in 2024, the approval of the privatization process in ALESP and the improvement in Sabesp's operational results boosted stock. This position yielded 1.72% of the fund.

Eletrobras' energy balance sheet showed a high amount of uncontracted energy from 2024 onwards. Thus, the future energy price curve was one of the key factors in determining the stock price. After a very strong rainfall during the 2023 wet period, which exerted downward pressure on the curve, we saw the performance of Eletrobras' shares as overly negative. We invested in the company at this point, believing that the long-term price implied in the stock valuation was near its lowest point. Additionally, with the company's privatization in June 2022, we believed Eletrobras would show gradual improvements in its operational results and liability management. This improvement, coupled with the gradual rise in the future energy price curve, boosted the shares, and the position contributed 1.25% to the fund.

Since the end of Eletrobras privatization process, the new management team had made it clear that they intended to sell the company's stakes in other segment companies. The sale of Eletrobras entire stake in Copel made us question which other minority stakes could be put up for sale, and naturally, the relevance of the stake in ISA CTEEP made it a strong candidate. Given the potential secondary share offering and the company's high valuation, trading at a return rate below NTN-Bs, we built a short position in the company. The announcement of the offer caused the shares to fall and there was a significant increase in short positions in the company. However, due to issues with structuring the transaction, Eletrobras was forced to postpone the sale of its stake, resulting in a short squeeze in the company's shares and a 0.90% loss to the fund.

Commodities

The commodities sector contributed with a return of 1.65% for the year. The standout was the long position in PetroRio, resulting in a 2% gain for the fund. In a year when the stock experienced significant volatility due to government interference with the temporary import tax, we were successful in identifying the company's high execution capacity to grow production at the Frade and newly acquired Albacora Leste fields. PetroRio remains an important position for the fund in 2024, as we believe there is still significant room for production growth with the start of the Wahoo project and a very attractive valuation. On the negative side, we lost 1.76% with the position in 3R, impacted by a temporary export tax from the government and the company's below than expected execution. Furthermore, we opted not to hold Petrobrás in 2023, fearing that the changes implemented by the new management and the negative rhetoric on pricing policy and against high dividends at the start of the government. This decision proved to be a mistake.

In Mining and Steel, the contribution was 0.8%. The highlights were (i) the positions (both long and short) in Usiminas, yielding 0.7%; and (ii) our arbitrage trade of the discount between holding company Metalúrgica Gerdau (GOAU) and Gerdau (GGBR), yielding 0.4%. The gain was explained by the above-historical discount at which Metalúrgica Gerdau traded for no apparent reason, exacerbated by the significant dividend payment difference in Q3 2023 between GOAU and Gerdau. On the negative side, we mistimed operations in CSN during the year, resulting in a 0.5% loss.

Lastly, in Pulp we maded a positive contribution of 0.5% from the long-short trade, where we were long in Suzano and short in Klabin. Our investment decision was mainly based on Suzano's more attractive relative valuation and production growth in 2024 and 2025 with the Cerrado project.

Domestic Growth

The discretionary consumption sector contributed with a return of 2.3%, despite the difficulties faced by the stocks mainly due to discussions related to the government Provisional Measure 1185/2023. This PM 1185/2023 addresses the taxation of company subsidies and significantly impacts the profits of many companies by limiting the sector's fiscal benefits. In this context, we preferred to select long positions in companies with more solid fiscal benefits that would not suffer significant fiscal changes with the approval of the 1185/2023. The main positive highlight in the sector was Mercado Livre, a company we've had in our portfolio since the beginning of the fund. The company has consolidated itself as the leading e-commerce player in Latin America, consistently delivering growth and profitability. The long position in Vivara also deserves a mention. The company has its revenue tied to the high-income consumption segment, is the market leader in its segment, and has been significantly improving its gross margin with the growth of the Life brand. Additionally, the company has had its factory in the Manaus Free Trade Zone since 1992, making most of its fiscal benefits constitutionally guaranteed.

Two negative highlights in the retail sector in our annual performance were our long positions in Arezzo and Intelbras, which significantly contributed to our performance in 2022. Arezzo combines several factors we seek in our investments and has always been a core position in our portfolio, but it suffered from Provisional Measure 1185/2023 discussions in 2023. However, we continue to believe in the company's prospects. In Intelbras' case, we have been shareholders since its IPO, admiring the company and its management, but we underestimated the impacts of the "hangover" in solar energy sales according to the Law 14.300, especially at the beginning of the year. We divested the position in the first half and are waiting for a better moment to buy it again.

In homebuilders, we continued with long positions in the companies we consider the best in the low-income segment, Direcional and Cury. Additionally, we operated tactically with other low-income companies throughout the year, as we still see several tailwinds for the sector, such as a larger budget for Minha Casa Minha Vida (Government's Housing Program), a controlled cost scenario, and positive changes for the Brazilian housing program. Although we prefer the low-income segment, we have a significant position in the best-performing company in the high-income housing segment, Cyrela. Overall, the sector contributed 1.2% to portfolio performance.

The Software sector had a positive performance in our portfolio, despite being relatively small in the stock market and index composition. Stock picking was essential in the sector, with our long position in VTEX helping with 0.54% and Sinqia 0.85% to the fund's result.

In the car rental sector, we lost 0.6% with the investment in Movida. The sector was going through an uncertain time due to the volatility of used car prices in the secondary market, but we believed that the company's leadership change would be positive from a capital allocation discipline perspective. Additionally, we saw Movida as a turnaround story in the medium term and thus built a position when we envisioned sequential improvements in the car rental company's profit. However, due to a marginal deterioration in used car demand, the context of pressured results from high depreciation in used car sales persisted longer, and Movida's shares suffered. We were wrong to invest in a company whose business model is capital-intensive during a market period where long-term interest rate curves rose significantly, further impacting the stock's negative performance.

In Capital Goods, we identified Embraer as a favorable case, considering that among commercial aircraft manufacturers, the company had the shortest delivery lead time, which could signal a marginal increase in orders. Moreover, the positive moment in the executive aviation segment and the prospect of new orders in the Defense & Security segment made us optimistic. We took advantage of a moment of profit-taking in the company's shares due to the lack of new orders after the Paris Air Show and the worsening global sentiment towards airline stocks (which have a high historical correlation with Embraer's shares) to start the investment in mid-last year. We were correct in both the entry of new orders in commercial aviation and above-expected cash generation, resulting in a 0.97% gain for the fund.

Domestic Defensive

In healthcare, we identified that after two years of low profitability during the pandemic, the first 12 months after the approval of the Hapvida and Intermédica merger were challenging. To avoid disruption, two CEOs (one from each company) outlined a long integration plan that brought many uncertainties about the resulting service model, hospital management, and governance. This situation reached its most delicate moment in early 2023 after the "Americanas event" when the credit supply restriction impacted its short-term liquidity. At this point, with the company's market value extremely depreciated, we invested in the company. We gained confidence to invest after identifying that the Hapvida model, a management approach with a pragmatic focus on claims management and efficiency, would be implemented in the combined company under the leadership of Hapvida-origin executives already accustomed to this operational model. The stock indeed recovered part of the decline and contributed 1.6% to the fund. Still in the healthcare sector, in August, the PTO (Public Tender Offer) process for tag along by control transfer of Aliança Saúde (formerly Alliar) was completed, an arbitrage position we had held since 2022 and increased over time, becoming the largest minority shareholder in the company. This position yielded 1.78% to the fund.

The Food & Beverage sector made a negative contribution to the fund's consolidated performance during the period. The main detractor was Minerva, which caused us losses of 1.79%. We analyzed the Brazilian cattle cycle as very positive for beef exporting companies, given the high availability of cattle and positive international demand prospects, Minerva was the best positioned company for this cycle. However, the stock suffered significantly from the spread of Bovine Spongiform Encephalopathy (BSE), commonly known as "mad cow disease," in the first half and the acquisition of Marfrig plants in the second half of the year, which contradicted our cash generation and dividend thesis for the company.

On the positive side, it is worth highlighting a tactical position in M.Dias Branco, which added 1.24% to performance. We began building our long position in the company after the Q1 2023 results release, which resulted in a more than 20% drop in the stock. The "snapshot" of the results showed pressured margins due to the high cost of its main raw material, wheat. However, based on our projections, we believed the "snapshot" did not represent the "movie" we expected for the year. The company ended up delivering sequentially better results, reducing its financial leverage, and margin improvement due to lower costs of key raw materials. Consequently, the stock performed very well.

Global

In TMT, it is worth highlighting 3 long investment theses during the year that remain our major convictions in the sector. The first is Meta. Despite all the issues faced by the stock in 2022, we analyzed a company with significant growth opportunities, especially cost cutting opportunities that materialized. Currently, we see the company as a case that combines value and growth with a differentiated competitive position in the market. The second is NVIDIA, a company that is one of the main beneficiaries of the AI boom. Finally, UBER, a company we greatly admire for its management, competitive positioning, and clear path to profitability and cash generation with operational leverage. In the global segment, it is also worth mentioning the long position in luxury brands during the first half, based on the resilience of high income, brand strength, and the return of consumption in China.

On the negative side, our short position in H&M ended up being a significant detractor to performance. Overall, the book generated a return of 1.46% to the portfolio.