(A free translation of the original in Portuguese)

JBi JARDIM BOTÂNICO INVESTIMENTOS

TRIANNUAL LETTER

August 2010

Fourth Letter

INDEX

SECTION 1 THEMATIC ANALYSIS

I. ACTIVISM

Our investment philosophy includes a certain degree of the so-called “shareholder activism”.

Foreign investors are starting to understand that shareholder activism in Brazil is rather different from what is practiced in the U.S., where dissatisfied investors often seek to dismiss current management and elect a new team in order to change the general direction of the company’s business.

In Brazil, given the prevalence of companies with a defined controlling shareholder, similar actions are still rare. Based on this characteristic, activism here is what we call collaborative. We believe this style of activism makes more sense once minority shareholders are bestowed with considerable rights, however insufficient to influence the business direction of a company.

This style of activism has come to be known in Brazil by the acronym PIPE (*private investment in public equity*), with its main characteristic being to actively participate in the election of representatives to Boards of Directors and Fiscal Committees and negotiating shareholders’ agreements to include important additional rights.

At JBI, we chose not to adopt this kind of activism given that, among other factors, it would require a larger team due to the intense dedication this type of approach demands and a more restrictive redemption structure, since PIPE often involves maintaining significant positions in shares with lower liquidity.

Our activism takes place in two forms: (i) we offer a form of advisory in corporate governance given the recognition our team has earned within this area; and (ii) we assert our shareholder’s rights, including occasional conflicting situations, where we measure if the cost-benefit of engaging in such action will result in a positive outcome.

Over nearly five years since the fund’s inception, our governance filter has been effective in providing a history of little divergence between our interpretations and those of major shareholders and managers of companies we invest in. One of these rare moments is currently taking place amid the recent Embratel offer to buy Net Serviços’ non-voting shares.

We have been Net shareholders since mid-2007 and our investment rationale has been the growth potential of broadband in Brazil and the company’s exceptionally competitive positioning, allowing it to benefit directly from this opportunity. We were aware that there was considerable corporate risk since Net control is shared by Grupo Globo and Telmex (the latter through various companies, including Embratel). In our opinion, the only reason Telmex isn’t the sole controlling shareholder of Net is because Brazilian law forbids foreign investors from owning more than 51% of voting shares in cable TV companies. There is a bill currently under way in Congress, PLC 116 (formerly PL 29), which proposes to change this restriction. If approved, we expect the merger between Telmex’s Brazilian companies (Net and Embratel) to happen and, in this context, we believe it would be less likely that Net would take advantage from a fairer or more favorable exchange ratio, since Telmex has greater economic interest in Embratel.

Nonetheless, Net shares had been underperforming this year, increasing its price discount to fair value. Additionally, PLC 116's approval seems very unlikely in the current administration. Therefore, despite the potential risk of PL 116 being approved and of an unfavorable merger between Net and Embratel, our conviction was that the price was very attractive and, for that reason, the investment in Net still presented an interesting mid-term risk-return ratio.

It seems to us that Telmex (through Embratel) also perceived this decoupling between price and fair value of Net stocks and, perhaps for this reason, decided to take advantage of the situation and propose a tender offer to all non-voting shares at R$23/share. It is important for Telmex to buy the largest possible amount of non-voting shares in this offering since considering that Net is listed as Level 2 in Bovespa's Novo Mercado, its non-voting shares would obtain voting rights in a potential merger deal with Embratel and Telmex will not own the majority of the company's total capital (even after a potential purchase of Grupo Globo shares).

The major issue in this process is not to merely disagree with the purchasing price offered by Embratel, since it would suffice to refuse selling our holdings. The real problem arose from Embratel's approach in its offering statement published August 9. In this document, the issuer, Embratel, stated: *"Considering the nature of the Offering, the Issuer is not bound by the provisions of articles 10, paragraph two, and 15 of CVM Instruction 361/02."*

These are precisely the legal procedures that bestows us more time to evaluate whether the price offered is attractive, particularly, the regulation in the second paragraph of article 10. Such regulation states that: *"the issuer will be required to buy the remaining outstanding shares within a 3-month period, starting from the offering date, at the final public offering price, updated until the actual payment date."* It is clear that the option of being able to sell after the offering date, allows us to make a better decision on whether the price is fair without having to worry about a potential reduction in share liquidity, in case we decided not to sell at the offering.

The two clauses instructions mentioned earlier can only be waived when the issuer is not (i) a controlling shareholder, (ii) the company itself or (iii) a person associated with controlling shareholders. We were therefore surprised that Embratel defined itself as an entity unassociated to controlling shareholders despite having signed a shareholders' agreement that gives it extensive powers over Net's management.

We thought this interpretation was mistaken and it seemed only natural that the regulatory agency should examine the matter. This was exactly what was under way when we informally consulted CVM. Soon enough, Embratel republished its statement to include the two clauses mentioned earlier, in accordance with our interpretation.

The new offering is scheduled for October 7, this time under more equitable terms, essential to evaluate whether the R$23/share price is reasonable. We have exchanged ideas with other Net shareholders and in most cases they agree with us that the offered price is low. We will continue to consider the offer in the course of this month.

SECTION 2 PORTFOLIO'S RISK-RETURN ANALYSIS

I. JB FOCUS FIC FIA (Flagship Fund measured in Brazilian reais)

The fund is up 168.6 % since inception (on September 16, 2005) During the same period the Ibovespa and IGC are up 119.6% and 123.6%, respectively.

Table 1: Risk-Return Ratio

	Focus FIA	Ibovespa	IGC
Annualized Return	21.7%	16.9%	17.4%
Annualized Volatility	21.7%	31.8%	30.9%

Source: Economática and BNY Mellon.

From January to August 2010, the fund had a 9.6% positive return compared to 2.5% gain in IGC and 5% decline in the Ibovespa. We reiterate that, due to our strong capital preservation approach, this tends to be the typical relative performance of our portfolio.

The main positive and negative contributions from January to August are shown in the table below:

Table 1: Focus FIC FIA Contributions (Jan-Aug 2010)

Positive		Negative	
Marcopolo PN	3.3%	Met Gerdau PN	-1.0%
Odontoprev ON	2.5%	AES Tietê PN	-0.3%
Mills ON	1.8%	Net PN	-0.2%

Source: JBI.

Marcopolo (up 44.9% in 2010) confirmed its positive momentum with 2Q10 earnings. Sales rose almost 50% in the 1H10 compared to the same period in 2009, while margins have recovered, resulting in a 110% gain in EBITDA.

Odontoprev (up 38.1% in 2010) has also confirmed the quality of its business and management not only with outstanding 2Q10 results but also with the recent partnership with Banco do Brasil, which is expected to immediately add 400 thousand new customers to its current base of 4.4 million, and which has mid-term potential for adding another 3.5 million customers.

Metalúrgica Gerdau (down 10% in 2010), as with any commodities company, its share price is affected by worldwide supply and demand indicators, which haven't been very positive, particularly in the company's U.S. operations. In this type of investment (commodities) the market always has an exaggerated reaction, which seems to be the case since we continue to be optimistic about growth prospects for the company's volume and results. Construction GDP recorded the largest increase in 2Q10 in relation to 2Q09 (+16.4%, the best performance since 1996 and almost twice as much as the 8.8% growth in overall GDP). We see our investment in Gerdau as a way to take advantage of the excellent outlook for this sector.

II. MILLS

Company Overview

Founded in 1952 by the Nacht family, Mills was created as a scaffold and shoring company that provided services to the construction industry. Today the company is one of the major providers of engineering services in Brazil and the leading provider of concrete formwork, shoring systems and scaffolding to be used in heavy construction, infrastructure, civil engineering and industrial plant projects.

The company's Chairman of the Board, Mr. Andres Cristian Nacht, has been a member of its management team since 1969 and has also served as Chief Executive Officer from 1978 to 1998. He is the only member of the Nacht family currently involved in the company's management.

In 2007, Mills received investments from two private equity funds, which capitalized the company mainly to purchase equipment.

Mills is organized into four divisions:

1. Heavy Construction: concentrated on large infrastructure projects as a provider of specialty engineering solutions (planning, generating and implementing projects) including customized services and equipment rental such as scaffolding, formwork, shoring and aerial platforms;
2. Jahu: acquired in June 2008, this division is focused on residential and commercial construction as a provider of tubular and suspended scaffolding, and recently, concrete formwork;
3. Industrial Services: focused on industrial maintenance services (such as access structures, painting and insulation services in construction and maintenance of industrial sites). Main customers include oil and gas and petrochemical companies. The service provided is a combination of access equipment rental (such as scaffolding and aerial platforms) and highly skilled technical support personnel;
4. Equipment Rental: motorized access equipment rental (aerial platforms and telescopic handlers) to be used in construction, industrial maintenance and other services that may need motorized access.

Mills Divisions

	Heavy Construction	Jahu	Industrial Services	Equipment Rental
Revenues	**36%**	**15%**	**35%**	**13%**
EBITDA	**47%**	**20%**	**13%**	**20%**

Source: Company. (1) 2009 data.

Investment Thesis

We consider our investment in Mills as a form of partnership with an industry leader that has an experienced management team, good corporate governance, and which will use the funds raised in its IPO to implement its growth plan and fulfill the pent-up demand in the infrastructure sector.

JBI rarely participates in an IPO for three basic reasons: (i) there is usually very little time to examine the Offer; (ii) the history is often too short to evaluate managers' performance; and (iii) valuations are typically overpriced, requiring very aggressive assumptions to be justified.

The investment in Mills was one of those rare exceptions. First, two of our partners were members of the company's Board of Directors when it was still privately held and were therefore able to: (i) learn about the sector and its specific characteristics; (ii) verify management's competence and expertise; and (iii) witness its partners' effort to implement good corporate governance practices. Second, given the positive outlook for the sector and considering the company's competitive position, we believe Mills has very favorable situation and the IPO price seemed attractive in view of these prospects.

Mills was poised to benefit from the good momentum the industry is currently experiencing in Brazil. The result has been a company that has more than tripled in size in four years, improving its profitability: EBITDA margin rose to 40% from 13% and ROE went up to almost 50% from 25%.

In terms of corporate governance, Mills has long adopted a series of best practices: (i) a professional management approach with a clear definition of the roles of partners and managers; (ii) a functioning Board of Directors, with actual power and authority; (iii) independent Board members; (iv) financial statements audited by reputable audit firms; (v) EVA-based compensation; and (vi) a stock options plan.

Last but not least, our initial investment had multiples we consider attractive in a company with such growth potential and profitability: about 7 times its cash generation for 2010 and 6 times EBITDA for the same period.

Outlook

After raising more than R$400 million in its initial public offering, the greatest challenge for Mills will now be to manage an aggressive investment plan (the largest in the company's history). At first, given the usual gap between equipment purchase and revenue generation, it is normal to see a decline in the company's profits and in its return on assets. However, in the mid-term, the new equipments will begin to generate revenues and profitability should improve.

After the 2008 crisis, we are back to a more favorable scenario for large investment projects. Additionally, we are pleased the company endured the turbulent period very positively: management was able to restrain investments at the right time so as to prevent an increase in the idle rate and the large number of ongoing projects allowed Mills to continue showing very encouraging results, keeping its debt under control and maintaining (even increasing) profitability.

Looking ahead to the coming years, we believe the long-term Brazilian macroeconomic scenario and the need for investment in large-scale infrastructure projects represent a considerable source of revenue for Mills. In order for Brazil to maintain the expected 5.5% growth rate, significant investments must be made in hydropower plants, highways, subways, etc., and Mills's Heavy Construction division will benefit from this scenario.

As for Jahu, growth in the Brazilian real estate market – driven by: (i) credit expansion; (ii) the rise in workers' real income; and (iii) government home loan programs such as Minha Casa, Minha Vida – will be the major factor contributing to the division's revenue growth.

In the Industrial Services division, the return of investments in new manufacturing plants (or in the expansion of existing plants) should strengthen revenues from industrial assembly. Furthermore, the pickup in activity in the oil and gas sector (particularly in the pre-salt oil exploitation) should have a positive impact for Mills (which offers products and services tailored to this sector). The company can greatly broaden its operations in this sector (geographically as well as by widening the array of services it provides). An interesting way of achieving this would be by acquiring companies that operate in niches within this market, and part of the funds raised in the IPO should be used to this end. Having witnessed the success story of Jahu's acquisition and integration, we are comfortable and welcome any possibility of further acquisitions.

In conclusion, we believe the demand for this type of equipment tends to grow in multiples in the coming years. In addition to the regulation change we mentioned earlier, there is increasingly the need for greater productivity gains in construction projects as well as a growing demand for safer working conditions in terms of motorized access for aerial work. According to Mills, there are only about 7,400 aerial platforms and 384 telescopic handlers currently in use in Brazil, compared to about 524,000 and 161,000 in use in the U.S., respectively, based on research by Yengst Associates Inc.

III. LONG-BIASED TWO-YEAR ANNIVERSARY

We are very pleased with the performance of our fund JBP Long Biased Brazil as it completed its second anniversary. This fund, intended solely for foreign investors, was created for those who appreciate our investment philosophy but who seek less volatility than in a long-only stock fund such as ours.

To deliver such result, we replicated our long-only fund positions and hedge part of this portfolio by selling Bovespa futures contracts, so that this fund could have a net long position that ranges from 30% to 70% of its assets. Since we don't have a top-down view of the market, but rather a fairly good idea of the value of the companies we study, we check the forward P/E ratio of the Ibovespa in the next 12 months and adjust the level of hedging accordingly.

Considering that this fund's shares are dollar denominated and that we have reduced part of the gain potential due to the hedge mentioned above, we also hedge part of the currency exposure in this case. We don't have any other short positions in the fund (such as pair trades).

We had a seed investor in the Long Biased who provided the fund with U$10 million on August 1st, 2008. The fund's current assets are presently at US$14 million, with an annualized performance of 11.4% (in dollar terms) compared to a 0.2% gain in the Ibovespa. This fund's volatility, as measured by standard deviation, was 26.2%, compared to 54.6% volatility in the Ibovespa. We believe this performance to be adequate and, more importantly, entirely compatible with the fund's guidelines.