(A free translation of the original in Portuguese)

JBI JARDIM BOTÂNICO INVESTIMENTOS

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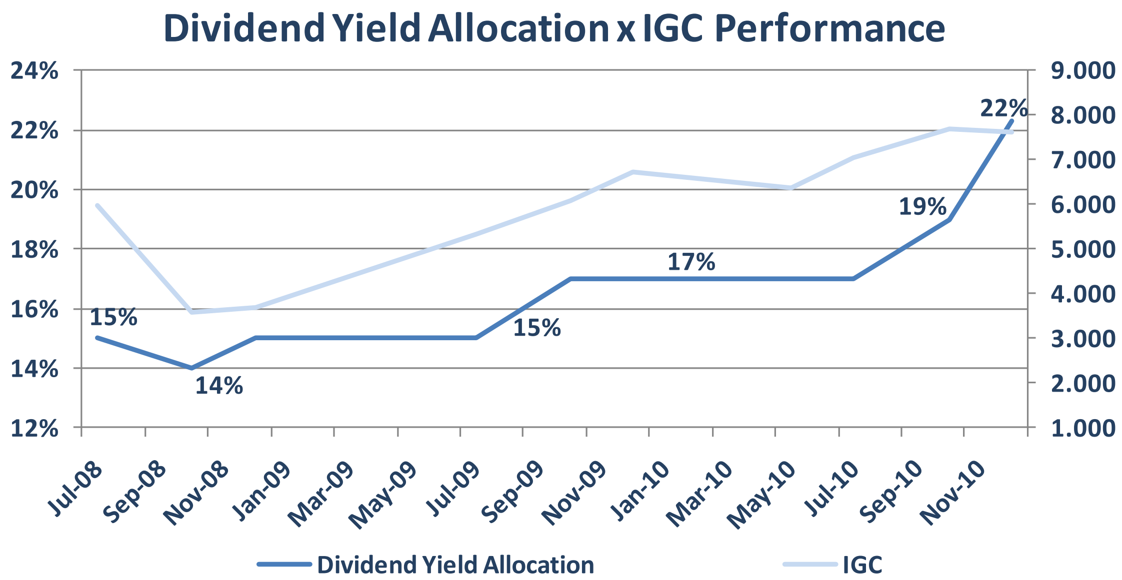
SECTION 1 THEMATIC ANALYSIS

I. CAPITAL PRESERVATION

In the midst of a volatile year such as 2010, we felt it was appropriate to revisit the importance of the capital preservation concept, an integral part of our investment philosophy.

In our first letter we had already stated that: *"We seek a return premium in relation to the opportunity cost that does not represent a much higher risk than that implied in the opportunity cost itself. The key concept here is capital preservation, in other words, make investments to minimize losses and not necessarily to maximize gains. Experience shows us that the magic of compounding rates allows investments of this type, which are less negatively impacted in crises and only partially accompany rallies, to produce higher returns than other available alternatives in the long term."*

A good example of an investment that fits our fund's capital preservation profile is a company with a history of consistent dividend payments, resulting in attractive dividend yields. These investments are represented in our portfolio by shares of two power generation companies: AES Tietê and Tractebel. The dividend yield of the first has remained steady at 10% in past years while the second has fluctuated between 5% and 10% (depending on the company's investment cycle). We tend to increase our positions in companies with high dividend yield every time we identify fewer opportunities in our universe of analysis (see table below).



Source: JBI and Economática. (1) We used the IGC, Index of Corporate Governance, since it represents our investment universe more accurately. Furthermore, this index has a lower concentration of individual securities than any other. Petrobrás strong weight within the Ibovespa became clear in 2010. (2) Dividend yield performance is calculated over the equity position in the portfolio, which has been 90% of total assets on average.

Our objective is to emphasize how managing this allocation contributes to maximizing the fund's risk-return ratio. In fact, in a year of significant volatility, both power generation companies had a solid participation in our fund's performance: about 5% of the 26% gain for the year. In Section 2 we describe AES Tietê's case in more detail.

II. *NOVO MERCADO*

In September, BMF&Bovespa put to a vote to several proposed changes to the *Novo Mercado* regulation. Among these proposed changes, five seemed to be critical in further raising the level of corporate governance: (i) OPA 30 (tender offer 30), any shareholder who reached a 30% equity stake would be required to make a tender offer for all remaining shares; (ii) obligation of an audit committee; (iii) increase in number of independent board members from 20% to 30%; (iv) separation between roles of CEO and Chairman of the Board; (v) ban of perpetual poison pill clause ex-post.

Proposals (i) and (v) were particularly important for two reasons: (i) they would standardize the 30% trigger of total capital for poison pill clauses, reducing the excessive restriction imposed by companies that have recently issued shares in the market (several with 15% triggers of total capital); (ii) they would contribute to partially solving the complex problem regarding tag-along rights (obligation of buyer to make a tender offer for all shares at a minimum price equal to at least 80% of the amount paid for shares with voting rights that are part of the control block) since countless corporate transactions that in fact (but not legally) result in transfer of control remain outside the scope of the tag-along rule. In some respects, the new rule would be based on the assumption that a transfer of control was underway when the 30% level was reached. This is a clear and objective rule.

We regret that only items (iv) and (v) were approved. The general frustration in the market was clearly expressed in the comment made by Armínio Fraga, BMF&Bovespa's Chairman, shortly after the vote: "This reeks of old Brazil".

We fully understand opposition to change and difficulty in "making a bet", involving higher short- to mid-term costs of implementation and implicit returns in the long run. For instance: does having an audit committee actually reduce a company's risk and, therefore, should it trade at a premium in the market? Who guarantees this is true?

However, our opinion is that companies that were more committed to rejecting the proposals in reality shot themselves in the foot in the September vote. Competition for capital is now global and certain practices, such as having only 20% of the board composed of independent members, are outdated in comparison to several emerging market peers – with more demanding governance practices.

Novo Mercado practices could soon become commonplace if they are not updated to address investors' most pressing demands. The market premium, clearly reflected in IGC's performance when compared to other indices, could decrease and boost the cost of raising capital for companies. Therefore, we believe rejecting the aforementioned proposals goes against the long-term interests of the companies themselves.

We had expected a certain degree of opposition, but the level of rejection actually surprised us. We pondered the situation and concluded that shareholders of the *Novo Mercado* companies may have lacked commitment. We could have carried out a more organized campaign geared toward companies we frequently associate with to underscore the importance of these proposals.

At any rate, nothing prevents companies from adopting higher corporate governance standards in accordance with the rejected proposals.

III. CVM

2010 was undoubtedly a highly productive year for our regulatory agency. In essence, we celebrated the creation of instructions 480 and 481, as mentioned in our third letter, and we received with even greater satisfaction the Commissioners' decision on Tractebel in September. This ruling produced a new interpretation of the controversial article 115 of the Corporate Law (conflict of interest), which endorsed the market's point of view: shareholders who have interests that conflict with those of the company are forbidden from voting in matters that place them in this position of conflict.

In our previous letters, we described how we were dealing with the conflict of interest at Tractebel, a company owned by the fund. GDF Suez, its controlling shareholder, develops projects for new power plants and later resells them to Tractebel. We discussed the matter with the company's chairman on several occasions and when the company itself was ready to propose a solution to ease the conflict of interest, CVM decided to forbid GDF Suez from voting on any deliberations that resulted in acquisition of such projects by Tractebel. As expected, the minority shareholders unanimously approved the transfer of Estreito hydropower project, reviewed at the shareholders' meeting in October.

This decision brings much respite to minority shareholders, who have traditionally been harmed by decisions taken by controlling shareholders who are in a clear conflict of interest within numerous Brazilian public companies. This decision is a relief for the market and a milestone for improvement of Brazil's corporate governance environment.

SECTION 2 PORTFOLIO’S RISK-RETURN ANALYSIS

I. JB FOCUS FIC FIA (JBI Flagship Fund measured in R$)

The fund’s performance since inception on September 16, 2005 has been up 208.6%, or 23.4% per year.

Table 2: Risk/Return Ratio

	Focus	Ibovespa	IGC
Annualized Return	23.4%	17.1%	18.2%
Annualized Standard Deviation	21.1%	31.1%	30.1%

Source: Economática and BNY Mellon.

From January to December 2010, the fund obtained a positive result of 25.9%, compared with IGC and Ibovespa, both up 12.5% and 1.0%, respectively.

In the table below we see the main positive and negative contributions during the year of 2010:

Table 3: Contributions to Focus FIC FIA (Jan-Dec 2010)

Positive		Negative	
Marcopolo PN	4.4%	Met Gerdau PN	-0.9%
Odontoprev ON	4.2%	Net PN	-0.2%
Mills ON	3.4%	Fosfértil PN	0.0%

Source: JBI.

Marcopolo (up 119.3% in 2010) continues to confirm its strong outlook by announcing sound quarterly results. In the first three quarters of 2010, the company recorded sales growth above 40% over the same period in 2009. Gross margins are over 20% and cash generation has doubled in the 9M10 compared with the 9M09. Domestic demand is strong, particularly in the intercity bus segment, which contributes to better margins, since BNDES kept an attractive financing line of credit open throughout the year for purchase of these vehicles. Concession of bus routes are expected to be re-auctioned in 2011 with buses being required to have a maximum age of 10 years. Taking this into consideration, we believe intercity bus companies took advantage of this financing to modernize part of their fleets. According to Marcopolo estimates, one third of Brazil’s national fleet modernization requirements were met ahead of schedule in 2010. In addition to the other two thirds, domestic sales in 2010 should be boosted by countless BRT (Bus Rapid Transport) projects for the 2014 World Cup and the 2016 Olympics. 2012 municipal elections are also expected to increase demand for city buses in the second half of the year. In mid-2010, 6.5% of the fund was invested in POMO4 but following the strong rally during the year, we began to slightly reduce this position starting in September. However, given the quality of their business model and competent management, the company continues to be one of our key positions.

Odontoprev (up 89.5% in 2010) had another outstanding year in 2010. Following its association with Bradesco Dental in October 2009, the company announced another important partnership, this time with Banco do Brasil. A new joint venture will be created to sell dental plans through the bank’s branches. Odontoprev, which currently has 4.5 million clients, could add 4.4 million new clients by 2015 through this new channel. The announcement in August of this important partnership, combined with quarterly results that beated expectations, helped fuel the stock's performance last year, especially in October (+26.0%). At that point, we trimmed down the position to 5.0% of the portfolio, from 7.5% at the start of the year. Even though it is a complex task to measure precisely the value added by these joint ventures, we remain confident on the company's mid- to long-term outlook.

Metalúrgica Gerdau (down 21.7% in 2010) continues to suffer from the prospect of weak short-term results. The company has been facing continuous cost increases without being able to counterbalance the effect by increasing prices. Quite the opposite: the ongoing appreciation of the Brazilian Real enabled competing imported goods to momentarily enter the market, which led the company reduce prices. Necessary adjustment to drive the spread between international and domestic prices back to historic levels has already been completed. Obviously, effects of this adjustment period will be noticeable in the last quarter of 2010 and first quarters of 2011. We acknowledge the asset's quality, superior execution and Gerdau's dominant position in the markets it operates in. This fact, coupled with a positive outlook for Brazil's construction and auto industries in 2011, gave us confidence to increase our position. We took advantage of the share's successive declines from August to November to raise the percentage invested in the portfolio from 5% to 7%.

We have no set rule regarding the fund's annual turnover rate, but in reality we change our portfolio composition very little. In 2010, we sold our positions on Natura, Fosfértil and Net, and bought Mills. These changes were described in detail in April and August letters. In fact, in the August letter, we mentioned the public tender offer that controlling shareholder Net would carry out to buy back non-voting shares. The offering price at the auction, which took place in October, was R$23.00. Although we believe this price is below fair value, it would make no sense to keep the position given that the minimum percentage for the auction's success (2/3 of voting shares) was achieved.

We had an in-depth discussion on including three new companies in the portfolio. Although our knowledge on these companies has increased, we're still not comfortable to make an initial investment. Therefore, we chose to allocate the 6% holding we had in Net among companies within the portfolio that in our opinion present a better risk/return ratio: AES Tietê, Metalúrgica Gerdau and Pão de Açúcar.

In the case of Pão de Açúcar, the company was facing strong skepticism from the market due to delay in reviewing terms of its merger with Casas Bahia and even of a possible annulment of the deal. However, we were confident the merger would take place and would have a positive outcome, even before all details were outlined and Casas Bahia's figures were incorporated into overall results. In fact, the third quarter surprised the market with healthier gross margins, particularly at Globex. This recovery was largely due to an improvement in negotiations with suppliers, a result of greater bargaining power achieved following the merger with Casas Bahia. The stock had a positive reaction, up 22% in the months of October and November.

II. FUND'S FIVE-YEAR ANNIVERSARY

JB Focus FIC FIA, our flagship fund, celebrated its fifth anniversary on September 16, 2010. During this period, it posted returns of 171.8% (21.8% per year) compared with a gain of 128.1% (17.7% per year) for Ibovespa and 132% (18% per year) for IGC.

This is the first five-year window for the Fund, which we consider a reasonable time period to test our investment philosophy's effectiveness. Considering the risk taken, we believe returns of 15.9% per year, in real terms, are satisfactory and, more importantly, in line with the proposed mandate.

III. AES TIETÊ

a) Overview of the company

AES Tietê is Brazil's second-largest private power generation company (in terms of generation capacity) and its 10 hydroelectric power plants are located in the State of São Paulo, with a total installed capacity of 2651 MW.

The power generation company was created from the spin-off of Companhia Energética de São Paulo (CESP) and purchased by AES Corporation in 1999 through a privatization auction. Since 2003, after a shareholder restructuring of AES Corporation in Brazil, Companhia Brasiliana de Energia became direct controlling shareholder of AES Tietê. AES Corporation owns the majority of voting shares in Companhia Brasiliana de Energia, alongside BNDES (see Figure 1).

Figure 1: Shareholding Structure

Source: AES Tietê. (1) O = percentage owned in voting shares; P = percentage owned in non-voting shares; T = percentage owned in total shares.

The company has concession rights up to 2029 and all of its assured energy is sold through a bilateral contract with AES Eletropaulo until 2015. Current price of energy is R$160/MWh and, under the terms of the contract, is adjusted annually by the variation of the IGP-M inflation index.

b) Investment Case

Our rationale for AES Tietê is quite simple: the company's cash generation is highly predictable and stable and it pays out almost all of its earnings in dividends. Therefore, investing in this company creates an interesting hedge in our portfolio considering we obtain a minimum return from this position (a result of the stock's dividend yield).

Given the sale contract for long-term power, the company's revenues are highly predictable and stable. Additionally, considering the operation of this type of generation system (essentially hydro and already virtually totally depreciated), its costs, expenses and maintenance investments are also very stable and relatively low, making their net cash generation follow the same pattern. Consequently, the company has been distributing practically all of its net income, which has resulted in a dividend yield between 10% and 12%.

AES Tietê has been in our portfolio since December 2006. Initially, we invested in its non-voting shares (GETI4) because we believed that owning a more liquid stock (average daily volume is almost threefold that of the market) was better than having tag-along rights (which in this case only voting shares have). At the time, we didn't foresee a great probability of transfer of control. However, at the beginning of the year, we began to consider that chances of a shareholders' restructuring at Brasiliana have increased, which would result in a transfer of control: BNDES eventually will sell its stake in the holding and we've observed that several other groups in the sector (Cemig, CPFL and Neoenergia, just to mention a few) are actively seeking power generation assets and could be in a better financial position than AES to make a purchase of this scale. For this reason we have decided to switch our position in March from GETI4 to GETI3. We also took into consideration the fact that liquidity in AES Tietê's voting shares improved substantially despite the fact that the relative difference to the non-voting shares is still very similar. GETI3's average daily trading is over R$4 million per day (which we believe is reasonable).

c) Risks

We observe two basic risks in this investment: (i) requirement for the company to expand its installed capacity by at least 15% (about 400 MW) in the State of São Paulo, which was a requirement at the time of the company's privatization; and (ii) recontracting energy after current contract with Eletropaulo expires in 2015. In both cases, we believe these risks are low.

Regarding the requirement to expand installed capacity after the company's privatization, regulatory restrictions were implemented that made it impossible to allow compliance. In addition, Aneel has already established that expansion requirement does not affect the company's concession agreement.

In any case, the company has been developing a natural gas thermoelectric project with capacity to generate approximately 550 MW (in addition to other smaller projects, such as small hydro plants, and biomass energy). Even if these projects are implemented, we believe the risk of a decrease in dividend payments is low because: (i) the company has room to increase its debt; (ii) it has consistently generated net cash greater than its basis for profit distribution, resulting in stranded cash in the company; and (iii) currently there is a sufficient cash balance to carry out almost all of these projects.

Regarding energy recontracting after 2015, projected balance between supply and demand continues to be relatively tight in Brazil, therefore we believe that chances of not contracting are quite low. However, given that the current contract has a very favorable price for AES Tietê, we have been conservative in our projections with a lower price for energy sold after 2015 of R$130/MWh (instead of the current R$160/MWh).

d) Conclusion and final comments

Even with a more conservative profile, it is interesting to note that our investment in AES Tietê has produced attractive returns, not only in absolute terms but especially if compared to market performance.

In Table 1, we can see that, in the past four years, the company's non-voting shares had a total return of more than 140% while Ibovespa gained about 56% in the same period. Studying the stock's year-over-year performance, we notice that in bull market years (2007 and 2009), AES Tietê shares had a poorer relative performance (but attractive absolute returns). On the other hand, they remained practically stable in the 2008 crisis and in 2010 (while markets remained flat) had an exceptional performance. As a matter of fact, in 2010, AES Tietê shares had the best performance among companies in the energy sector.

Table 1: AES Tietê's Performance (GETI4) vs Ibovespa

	GETI4	Ibovespa
2007	18.45%	43.65%
2008	0.91%	-41.22%
2009	51.95%	82.65%
2010	32.83%	1.04%
Overall % Gain	141.28%	55.85%

Source: Economática.

This pattern of behavior in AES Tietê shares fits nicely into our fund's capital preservation proposal. We have learned that if we manage to limit declines in times of crisis, in the long run we will be able to secure substantial absolute returns (and quite probably outperform most of market indices).