



JBI

JARDIM BOTÂNICO INVESTIMENTOS

JBI FOCUS LETTER #9

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PORTFOLIO HIGHLIGHTS

I. Odontoprev

Odontoprev is the largest dental benefits company in Brazil. We invested in the company in 2008, based on four characteristics crucial to any investment:

1. Sound business: high growth potential – only 20% of the Brazilian population had health insurance by the end of 2007 and, among them, only 23% had dental insurance. With disposable income growing, the search for dental insurance increased 20% per year between 2002-07. In addition, the business is not capital intensive;
2. Efficient administration: the company, founded by a dentist, created an efficient system for pricing and controls of recoverable events.
3. Alignment of interests: among shareholders and managers - the company has a large shareholder base and is listed in Novo Mercado¹. Key executives receive part of their remuneration through stocks;
4. Discounted price to intrinsic business value: our model showed a 40% price discount.

Between 2007 and 2011, the dental insurance market grew at a rate of 17.5% annually, reaching a 35% of health plan coverage. In the same period, the number of dental plan members of Odontoprev grew 27% annually.

In 2009, the company signed a partnership agreement with Bradesco Dental, increasing its market share from 22% to 33%. This deal virtually eliminated one of the biggest risks we perceived

on the investment: fierce competition coming from major health groups that could afford to "buy market share" by aggressively lowering their prices at the expense of profitability. With the partnership, the company is now four times larger than its main competitor, with 5.6 million members (a number equivalent to the sum of its seven largest competitors).

The company has been working very efficiently to take advantage of this partnership. Since mid-2011, we can see some of the results: dilution of costs and administrative expenses and growth in small/medium enterprises as well as for individuals. Dental plans are currently sold in all of Bradesco's branches where Odontoprev has a list of accredited dentists. Results have been impressive: company's revenue grew 20% in 2011 with EBITDA expanding 48% and EBITDA margin rising 440 basis points to 22.7%. Their operational performance has reflected on its stock price which rose 476% since the bottom of the 2008 crisis (in October) until the end of 2011 against a 53% return of the Bovespa index.

In mid-2011 we decided to reduce the position from 6% to 4% in our portfolios. With an additional 10% increase in price last January we decided to sell the entire position.

Odontoprev represents the second largest historical contribution to the fund. Even though it still meets three out of four investment characteristics we look for in our investments (sound business, efficient management and alignment of interests), there was no longer margin of safety (discount *price x value*) to justify the position. The company remains on our radar

¹ A listing segment designed for shares issued by companies that voluntarily abide to corporate governance practices and transparency requirements in addition to those already requested by Brazilian Law and CVM (Brazilian Securities and Exchange Commission).

for possible future investments depending on price and evolution of fundamentals

II. Cyrela

The real estate sector grew rapidly in the past few years in Brazil, fueled by a high housing deficit (6 million units), as well as an increase in income and credit availability. Since 2006 several companies in the sector raised funds through public offerings, which led to a sharp growth in developments. Most companies aimed on diversifying geographically and on offering products which covered all income segments. The lower income segment was helped by government incentives and subsidies, through the federal housing program “Minha Casa, Minha Vida”. However, by the end of 2010, we began to identify signs that growth had occurred in a disorderly manner without proper controls.

Since the industry is regional, many companies partnered with local developers. As the need for workforce was faster than their capacity to train and transfer labor to other regions, companies began to outsource. With aggressive growth guidance, companies did not undertake the necessary due diligence before forming partnerships. Poor supervision of the work in progress, especially these outsourced, resulted in actual costs much higher than projected, leading to losses and margins squeeze. This led companies to review their partnerships (ending some of them), and to reduce outsourcing, focusing in markets where their presence was already established. They also reviewed and improved their internal processes and systems, focusing on slower, but more careful growth (with a smaller number of construction projects).

Cyrela, one of the sector’s leaders, was the first to recognize these problems and to take actions,

while other companies overlooked these budget overruns. Cyrela’s gross margin went down from 34.5% in 2009 to 31.4% in 2010 (most overruns were recognized in the 4Q10 with a 24.5% gross margin) reaching 28.3% in 2011. Due to the specifics of accounting for this industry, sales revenues are recognized overtime, as construction costs are being incurred. Since construction cycles are long, there are still unrealized negative results from projects with budget overruns (representing 30% of total projects) that will be recognized throughout 2012, but with much lower impact on results. Thus, the company expects its gross margin to reach 30% to 34%, with room for a greater recovery in 2013. It is also noteworthy that throughout 2011 there was QoQ improvement in margins (gross, EBITDA and net margins).

We started to invest in Cyrela in January 2011. In 2H10, the market had questioned the company’s guidance for new projects. At the same time it announced revisions on budgets to adjust according to actual costs. The price premium Cyrela traded over its peers ceased to exist. We set up an initial position of 3%. As confidence on our investment thesis increased, due to progressively better results, and taking advantage of the drop in share price (down 22% in a single month), we gradually increased our participation, reaching 8% of the portfolio.

While most real estate companies should continue to show margins squeeze and cash burn in 2012, we expect Cyrela to continue to provide margin recovery and cash generation. The stock is trading below 1.0x Price to Liquidation Value (P/LV) with 45% of the Liquidation Value consisting of cash and receivables from projects that have already been concluded.

JBI Focus Brazil Fund Factsheet

*Information below as of April 30th, 2012

MONTHLY RETURNS (net of fees)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Year |
|------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|-------|-------|--------|
| 2006 | | | | | | | | | | 0.8% | 5.0% | 7.9% | 14.2% |
| 2007 | 3.3% | 0.9% | 5.2% | 5.8% | 9.3% | 3.8% | 4.3% | -4.4% | 10.3% | 6.3% | -4.1% | -1.5% | 45.4% |
| 2008 | -8.5% | 12.0% | -7.9% | 11.8% | 10.5% | -4.8% | -1.1% | -10.2% | -22.7% | -22.7% | -4.0% | -2.2% | -44.7% |
| 2009 | 2.7% | -4.3% | 7.7% | 23.5% | 15.4% | 0.2% | 11.7% | 4.7% | 12.7% | 5.2% | 3.6% | 4.8% | 127.4% |
| 2010 | -8.9% | 6.0% | 3.4% | 2.6% | -7.4% | 2.3% | 7.9% | 2.3% | 5.7% | 6.4% | 1.4% | 4.1% | 27.1% |
| 2011 | -6.0% | -1.1% | 5.8% | 4.8% | -2.3% | 0.3% | -4.9% | -4.1% | -15.3% | 14.8% | -7.5% | 0.6% | -16.6% |
| 2012 | 12.4% | 6.4% | -4.4% | -4.4% | | | | | | | | | 9.3% |

RETURN AND RISK (net of fees)

| Return | JBI Focus Brazil | MSCI Brazil | Ibovespa USD |
|--------------------------------|------------------|-------------|--------------|
| Annualized | 17.1% | 11.5% | 12.7% |
| Since inception ⁽¹⁾ | 142.1% | 83.9% | 94.9% |
| Last 60m | 81.1% | 32.1% | 34.0% |
| Last 48m | 38.1% | -22.8% | -15.4% |
| Last 36m | 101.8% | 46.9% | 50.5% |
| Last 24m | 13.2% | -11.9% | -16.3% |
| Last 12m | -11.6% | -20.7% | -22.3% |
| Annualized volatility | 33.9% | 62.1% | 41.4% |

SECTOR ALLOCATION



AUM

PORTFOLIO CONCENTRATION

MARKET CAP.

LIQUIDITY

| | | | | | | | |
|----------|-------------|-----------------|-----|---------------------|-----------------------------------------|-------------------|-----------------------------------------|
| Strategy | USD 239.1MM | Top 5 positions | 55% | Market Cap. | Portfolio gross exposure ⁽²⁾ | ADTV of last 6m | Portfolio gross exposure ⁽²⁾ |
| JBI | USD 299.2MM | Next 5 | 29% | <R\$ 2bi | 8% | <R\$ 2MM | 8% |
| | | Last 3 | 10% | R\$ 2bi to R\$ 10bi | 53% | R\$2MM to R\$10MM | 60% |
| | | Cash | 7% | >R\$ 10bi | 39% | >R\$ 10MM | 31% |

(1) JBI Focus Brazil Fund inception date: September 29th, 2006; (2) Calculated over portfolio's equity allocation;

OBJECTIVE

To generate high absolute returns over the long term through investments in publicly traded Brazilian companies based on fundamental analysis. Emphasis on return potential, margin of safety and corporate governance practices.

TERMS AND CONDITIONS

Minimum Investment: USD 100,000
 Minimum Additional Investments: USD 50,000
 Subscription & redemption: Monthly
 Management fee: 1.5% p.a.
 Performance fee: 15% over the Ibovespa in USD w/o highwater mark, paid quarterly

PHILOSOPHY

- Value oriented
- Capital preservation and long term capital appreciation
- Governance and activism
- Concentrated portfolio strategy: 12-18 stocks
- Contrarian approach
- No leverage

STRUCTURE

| | | |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|-----------------------------------------------------------------|
| Investment Manager: Jardim Botânico Investimentos (JBI) Address: Av. Ataulfo de Paiva, 245/6th floor, Rio de Janeiro – RJ – Brazil – zip code: 22440-032 T: +55 (21) 2512-5574 Website: www.jbinvest.com.br Email: focus@jbinvest.com.br | RTA: UBS Fund Services (Cayman) T: +1 (345) 914-1050 | Custodian: Banco BTG Pactual T: +55 (21) 3262-8625 |
| | Calculation Agent: Banco BTG Pactual T: +55 (21) 3262-8625 | Auditor: KPMG T: +55 (21) 3515-9414 |

ADDITIONAL INFO

Inception date: September 29th, 2006
 ISIN Code: KYG1097W1042
 Bloomberg Ticker: JBPFBRA KY

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