

“SHOW ME THE INCENTIVE AND I WILL SHOW YOU THE OUTCOME”¹

The asset management industry is permeated by oversized² and complex structures that must be heavily fed from the outset. We should not be surprised by the anxiety that exists in raising capital at an accelerated pace. Within this context, the client is of vital importance – it is the lubricant that oils the machine.

Although it seems strange to give the patient the power to interfere with his own surgery, that is exactly what happens in our industry, as the client often controls the scalpel through redemptions. One runs the risk of being hostage to an excessively customer-centric culture, forgoing any decision-making autonomy.

There is a correlation between the ability to generate long-term sustainable returns and the quality of the client base, which is measured by the patience of investors to withstand the cycles. The unrelenting pressure for relative short-term performance, usually exerted by a wrongly incentivized and/or poorly educated base, may negatively influence those who are not prepared, either psychologically or financially, to lose it. Therefore, building a quality capital base should be a priority in the asset management industry.

In our view, there are only two ways (non-mutually exclusive) to build an aligned investor base. The most obvious one would be through redemption lockups. The obstacle in this case is to obtain a sufficient period for the maturation of an investment cycle in stocks³. Also, guiding a relationship of trust strictly via contracts, while efficient in the short/medium term, does not look like the most resilient alternative to us. The second, more realistic and solid option, comes through a long track record of good returns, which creates the necessary credibility to weather an adverse performance period.

Given that this second alternative can only be built with much patience and time⁴, while the relationship is not mature enough, an intermediate strategy is necessary to survive the obstacles during the cycles.

First, this strategy consists of having a simple structure and a culture in which financial rewards are not the only objective, thus creating some protection in a potential scenario of significant loss of assets under management. In addition, it is necessary to form a relationship of trust with investors through informed and transparent communication about the investment strategy, correctly aligning expectations.

However, these issues are merely ancillary given the need to deliver good returns in medium-term cycles. In order to do so, it is imperative to correctly evaluate the optimal volume of assets under management. If, on one hand, a larger AuM⁵ brings with it greater corporate access, the possibility to expand the team maintaining a low turnover and a greater investment in analytical capability, on the other hand one cannot underestimate the risk of an eventual decrease in agility.

¹ Charlie Munger

² Mainly in headcount and high short-term employee compensation

³ This should not be less than five to seven years. Only within such a timeframe one can have more comfort that a strategy of high expected value will pay something close to its weighted payoff. Shorter timeframes would incur a greater risk of forced liquidation of insufficiently mature investment cases. It could also generate problems for the manager who, for example, invests in an asymmetric strategy with a low probability of success and huge payoff. Notwithstanding, this is far from being a common practice in Brazil

⁴ Certainly more than our eight years of existence

⁵ Assets Under Management

Since 2009, the assets managed by Atmos have risen significantly. However, we have always been careful to preserve the quality of our client base while not compromising performance, testing in each period our real capacity to manage the new volume of assets.

So far, the size of the fund does not seem to have hindered our historic performance. The table below demonstrates that, regardless of the year in which the client invested in Atmos Ações, the annualized nominal return was between 18.9% and 26.7%.

	2009* ¹	2010	2011	2012	2013	2014	2015	2016	3Q17
Atmos Ações Performance									
Annual Return	11,9%	24,2%	6,4%	31,6%	15,4%	11,6%	17,5%	26,0%	19,9%
Cumulative Return* ²	345,3%	297,8%	220,2%	200,9%	128,6%	98,1%	77,5%	51,1%	-
Compounded Annual Return	20,7%	19,6%	18,9%	21,2%	19,0%	20,1%	23,4%	26,7%	-
Ibovespa Performance									
Annual Return	2,8%	1,0%	-18,1%	7,4%	-15,5%	-2,9%	-13,3%	38,9%	23,4%
Cumulative Return* ²	11,4%	8,3%	7,2%	30,9%	21,9%	44,2%	48,6%	71,4%	-
Compounded Annual Return	1,4%	1,0%	1,0%	4,8%	4,3%	10,3%	15,6%	36,2%	-
IPCA+6% Performance									
Annual Return	2,2%	12,2%	12,9%	12,1%	12,3%	12,8%	17,2%	12,7%	6,5%
Cumulative Return* ²	158,6%	153,1%	125,5%	99,8%	78,2%	58,7%	40,6%	19,9%	-
Compounded Annual Return	12,7%	12,8%	12,8%	12,8%	13,0%	13,1%	13,3%	11,0%	-

Atmos Capital AUM Evolution (R\$ million)

AUM end of year	31	102	315	755	1.321	1.535	2.359	3.359	4.635
Net inflows* ³	29	61	182	321	396	45	508	429	555
% previous year AUM	-	196%	179%	102%	53%	3%	33%	18%	17%
Organic Growth* ⁴	2	9	31	119	170	169	315	571	721

*¹ since fund's inception on Oct 15, 2009; *² from the beginning of the year to Sep 29, 2017; *³ subscriptions net of redemptions; *⁴ through NAV appreciation

Another way to identify that the client's average profitability was not impaired by the increase in the size of the fund is through the Internal Rate of Return (IRR)⁶. The difference between the returns of the fund and the client's IRR since 2010⁷ was only 0.1% (the IRR of Atmos Ações⁸ since 2010 was approximately 19.5% p.a.). That is, the historical result of the fund was not generated by an exceptional performance early on, when we managed a lower volume of assets, followed by a period of mediocrity.

“ENOUGH ABOUT THE DOWNSIDE, WE’VE HAD EIGHT YEARS OF DOWNSIDE. WHY DO WE HAVE TO BE NEGATIVE? LET’S BE POSITIVE”⁹

As specified in the table above, the fund presented a return of approximately 20% p.a. since its inception. Given that we concentrated our investments in a country that “failed”, this is a good result. However, what surprises us most is that we remained consistently, year after year, in the top performance tier. For those who build the car with the main objective of crossing the finish line in a long and winding race, this type of result is definitely not expected.

⁶ This metric equals the theoretical return of an investor meeting all contributions into the fund, proportional to his interest in the net asset value of an original period. Analogously, if the fund had only one client the metric would equal the average return on capital invested by him since the start of the calculation

⁷ We are using the period since 2010 because the year 2009 excessively distorts the data. In just two and a half months the fund achieved a 13.5% return, which equals a compound annualized return of ~84%. Therefore, we opted to exclude this short period to make for a cleaner analysis

⁸ The IRR of Atmos Ações was estimated based on the calculated Atmos Master IRR, subtracting the fees due. In order to check the capacity to maintain a certain level of returns as the fund's asset base grows, it would not make sense to look at the IRR of the feeder fund without taking into account the marginal capital injections into the master fund

⁹ David Tepper, U.S. investor

After a gloomy winter, 2016 and 2017 marked the resurrection of the optimists. The change of a fragile and aimless president for a pragmatic, orthodox government with a pro-market agenda was scarcely priced in. By construction, our portfolio benefited from the improvement of the economic outlook and from the start of a decline in long-term real interest rates, presenting a good absolute result, yet short of the index's result.

Our true potential for differentiation will always be realized in the investment cycles' negative moments. Thus, amid a potentially more optimistic scenario, our challenge as an asset manager will be two-fold: we will have to remain unattached from the natural desire to lead on every lap and simultaneously not settle behind an excessively conservative speech¹⁰.

The portfolio has already started to show some different tones compared to previous years. Given the current payoff structure, we believe that it is advantageous to assume a higher level of volatility. It is a situation unlike the one we witnessed in the recent past. This implies a portfolio with higher exposure, with less cash and fewer protections. Since there is no free lunch, it also means a higher level of risk and, in negative scenarios, greater potential losses compared to our historical track record. That is the price to pay to benefit from the positive scenario in the medium term.

The last few years have been very favorable to the investment style that is more natural for us, where we seek to minimize errors and allocate capital in higher quality assets. A snapshot of this period ends up depicting us as more intelligent than we really are.

Nonetheless, in this beneficial stage we managed to build some goodwill, be it from the effective return delivered to clients or from the opportunity to convey our concepts externally and to the team. This makes us feel more prepared to deal with conditions less favorable to Atmos' personality.

¹⁰ Just as countless American value investors have done during the past decade, while the S&P posted one of its greatest rallies ever

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HISTORICAL PERFORMANCE

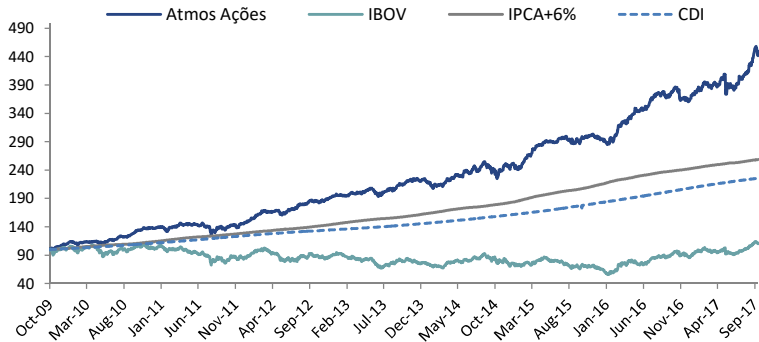
In R\$		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct*	Nov	Dec	YTD
2009	Atmos Ações										-0,04%	5,91%	5,74%	11,95%
	Ibovespa										-7,73%	8,94%	2,30%	2,83%
2010	Atmos Ações	-1,40%	1,42%	1,65%	0,07%	0,16%	1,67%	6,52%	0,15%	5,31%	4,13%	1,83%	0,66%	24,23%
	Ibovespa	-4,65%	1,68%	5,82%	-4,04%	-6,64%	-3,35%	10,80%	-3,51%	6,58%	1,79%	-4,20%	2,36%	1,05%
2011	Atmos Ações	-2,26%	2,42%	4,07%	0,37%	-0,12%	-0,60%	-2,26%	-2,80%	0,04%	3,63%	0,30%	3,76%	6,42%
	Ibovespa	-3,94%	1,21%	1,79%	-3,58%	-2,29%	-3,43%	-5,74%	-3,96%	-7,38%	11,49%	-2,51%	-0,21%	-18,11%
2012	Atmos Ações	4,40%	6,71%	0,46%	2,07%	-2,31%	3,42%	4,00%	0,95%	2,65%	-0,06%	3,06%	2,73%	31,61%
	Ibovespa	11,13%	4,34%	-1,98%	-4,17%	-11,86%	-0,25%	3,21%	1,72%	3,71%	-3,56%	0,71%	6,05%	7,40%
2013	Atmos Ações	-0,09%	1,94%	1,43%	0,90%	1,34%	-3,34%	2,51%	1,29%	3,43%	4,19%	1,46%	-0,46%	15,39%
	Ibovespa	-1,95%	-3,91%	-1,87%	-0,78%	-4,30%	-11,31%	1,64%	3,68%	4,66%	3,66%	-3,27%	-1,86%	-15,50%
2014	Atmos Ações	-6,19%	1,73%	3,74%	1,59%	0,92%	3,24%	1,07%	6,59%	-5,96%	0,54%	4,85%	-0,28%	11,58%
	Ibovespa	-7,51%	-1,14%	7,05%	2,40%	-0,75%	3,76%	5,01%	9,78%	-11,70%	0,95%	0,17%	-8,62%	-2,91%
2015	Atmos Ações	-2,61%	8,87%	4,96%	2,97%	0,56%	0,65%	2,90%	-3,17%	0,06%	2,68%	-0,18%	-0,87%	17,50%
	Ibovespa	-6,20%	9,97%	-0,84%	9,93%	-6,17%	0,61%	-4,17%	-8,33%	-3,36%	1,80%	-1,63%	-3,92%	-13,31%
2016	Atmos Ações	0,17%	3,91%	5,37%	4,18%	2,09%	2,14%	6,02%	0,81%	-1,53%	4,32%	-4,54%	0,93%	26,04%
	Ibovespa	-6,79%	5,91%	16,97%	7,70%	-10,09%	6,30%	11,22%	1,03%	0,80%	11,23%	-4,65%	-2,71%	38,93%
2017	Atmos Ações	2,97%	2,31%	0,51%	1,64%	-3,59%	1,32%	3,54%	4,94%	4,96%				19,89%
	Ibovespa	7,38%	3,08%	-2,52%	0,65%	-4,12%	0,30%	4,80%	7,46%	4,88%				23,36%

	Year		12 M		24 M		36 M		60 M		Since Inception*	
	Return	Volatility	Return	Volatility	Return	Volatility	Return	Volatility	Return	Volatility	Return	Volatility
Atmos Ações	19,89%	13,66%	20,50%	13,06%	53,54%	11,39%	86,63%	11,66%	141,87%	10,86%	345,29%	10,90%
Ibovespa	23,36%	19,21%	27,29%	20,55%	64,88%	24,05%	37,29%	24,89%	25,55%	23,09%	11,38%	23,09%

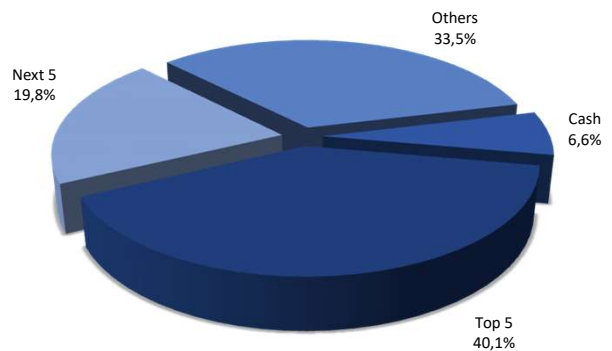
PS: Historical performance in R\$, net of all fees. Volatility calculated only to trading days.

*The fund started in October 15th, 2009

PERFORMANCE CHART



PORTFOLIO CONCENTRATION



PORTFOLIO

Breakdown by Sector	% NAV
Commodities	10,3%
Consumer and Retail	24,7%
Education	2,5%
Utilities	21,2%
Financials	20,9%
Food and Beverage	4,1%
Healthcare	4,4%
Industrials	0,0%
Real Estate and Shoppings	4,1%
Technology and Telecom	1,3%
Transportation and Logistics	0,0%
Bonds	0,0%
Cash	6,6%
Total	100,0%

Cap Size	% Portfolio	
Small	below R\$1 bi	2%
Mid	from R\$1 to R\$10 bi	32%
Large	above R\$10 bi	66%

Liquidity	% Portfolio
Cash	7%
≥ 10 MM	79%
3 MM a 10 MM	13%
1 MM a 3 MM	0%
< 1 MM	2%

Obs: Average trading volume of the last 20 days

NAV	R\$
Current NAV / Average NAV FIC FIA	633,3 MM / 600,7 MM
Current NAV / Average NAV Master FIA	2.715,5 MM / 2.226,7 MM
Total AUM	4.635,3 MM

PS: Average NAV last 12 months

ADDITIONAL INFORMATION

Inception Date:	15/10/2009
Minimum Investment:	R\$ 50.000,00
Minimum Subsequent Orders:	R\$ 10.000,00
Minimum Balance:	R\$ 20.000,00
Subscription Day (14hrs):	NAV of the following business day.
Redemptions (14hrs):	13 days after redemption date (NAV of the 10th business day after request).
Managment Fee:	2,0% a.a.' of fund's NAV.
Performance Fee:	10% of returns exceeding IPCA+6% payable annually with high water mark.

Income Tax:	15% tax over nominal returns.
Manager:	Atmos Capital Gestão de Recursos Ltda.
Administrator:	BNY Mellon Serviços Financeiros S.A. ²
Prime Broker:	BNY Mellon Banco S.A.
Auditor:	Deloitte Touche Tohmatsu Limited

ANBID Class:	Ações Livre
Bloomberg:	ATMOSAC <BZ><Equity>
Fund's CNPJ:	11.145.320 / 0001-56
Bank Account:	BNY Mellon Banco S.A. Ag 001 C/C 1208-4

For more information, please contact us at: faleconosco@atmoscapital.com.br Phone/Fax +55 21 3202-9550 www.atmoscapital.com.br

⁽¹⁾ 1,85% aa of FIC's NAV + 0,15% aa of Master Fund's NAV. Max management fee: 2,35% aa. Max management fee consists of the min management fee and the max percentage that the fund's policy allows to be spent on the behalf of the invested funds' management fees. ⁽²⁾ Administradora Contact: BNY Mellon Serviços Financeiros DTVM S.A. CNPJ: 02.201.501/0001-61 Av Pres. Wilson, 231, 11 floor, Rio de Janeiro - RJ. CEP 20030-905. www.bnymellon.com.br/br/pt. SAC: sac@bnymellon.com.br (21) 3219-2600 or 0800 725 3219. Ouvidoria: ouvidoria@bnymellon.com.br. Ibovespa is used solely as economic reference and does not represent the fund's parameter or objective. Performance is not net of taxes. The results of operations obtained in the past do not guarantee future results and do not contain any guarantee by the fund's manager, its administrator or by any insurance mechanism. The investor is advised to read the fund's offering documents carefully before investing. Both, risk exposure and the possibility of a total loss are inherent to investments. This fund may use derivatives as part of its strategy. These strategies may result in significant loss for investors and may even lead to losses higher than the total amount invested. Stock funds may be exposed to significant concentration of assets in few issues. Atmos Capital does not sell nor distribute shares of any other security. The content of this document has been prepared solely for informational and transparency purposes to the management carried out by Atmos Capital and is neither intended, nor should be considered, as an offer to sell, or as a solicitation to acquire shares in any investment fund or any other security. The content of this document is solely for the use of the recipient and shall not be reproduced.