"ALL PHILOSOPHY IS BASED ON TWO THINGS ALONE: CURIOSITY AND MYOPIA"[1]

Italian-born Galileo Galilei is considered the father of modern science. His contribution encompasses a range of fields, spanning from physics and astronomy to a broad range of topics in philosophy. Like every scientist of his day, Galileo was raised to believe in the Aristotelian geocentric model that claimed the Earth was at the center of the Cosmos; a view that is especially appealing to human egocentrism and our propensity to believe in myths built through good storytelling.

During his studies, in addition to a couple of experiments atop the leaning tower of Pisa, he started playing around with Copernican theory. For a classical scientist such as Galileo, the theory was nothing but a potentially valid hypothesis, since the truth would only be comprehended via experimentation and analysis of the results. The conclusion arose after the development of one of the first telescopes: by pointing it to space, he was sure that the Earth revolved around the Sun, and not the contrary.

In those bleak pre-Illuminism days, dogmas were taken seriously. By questioning an already consolidated religious interpretation, Galileo was considered a heretic and taken to the courts of the Roman Inquisition. He died without having his theories recognized and the Church needed a few more centuries to finally validate his observations. As the great Brazilian economist Mário Henrique Simonsen once said: "today's heterodoxy is tomorrow's orthodoxy." The search for a dominant faith created a tense relation between science and religion, costing humankind a long civilizational lag.

"IGNORANCE AND WEAKNESS ARE NOT BARRIERS TO SURVIVAL, BUT ARROGANCE IS"[2]

Every journey one initiates is burdened by the weight of some particular type of bias. Without even noticing, we tilt toward a predefined path before running a rigorous hypothesis-testing procedure. The fanatical belief that the sole, immutable path to success is known right at the outset may even help in the execution of basic tasks but wields questionable influence over the adaptation to major paradigm shifts.

Fundamentally-oriented analysts are trained to resist the temptation of reaching a quick conclusion that does not take into consideration all the necessary observations required for truly deep knowledge of a specific subject-matter. Verification is replaced by falsification to avoid inconsistent forecasts. Evidence, in aggregate, cannot prove a theory, only falsify it.

Amid this context, it becomes hard to understand the obsession with the word conviction, both in the vocabulary and the commercial speech of such a large part of the investment community. It imposes a certainty and incorporates a level of rigidity around thinking which transforms reflections into commandments. The investment case is seen as tantamount to the Tablets of the Law, written in stone without the possibility of change.

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[1] Bernard de Fontenelle, 17th century French author

[2] Cixin Liu, Chinese author of the acclaimed Science Fiction trilogy "Remembrance of Earth's Past," winner of the Arthur C. Clarke medal and the Hugo Awards

In the obstinate search for facts, doubts are inevitably created, demonstrating the endless character of such a pursuit. This perception that there is no such thing as a finish line is a motivator to keep on climbing. Therefore, the process of “scientific falsification” works as a valuable analytical tool, as well as a unifying element for honest debates.

However, in a world that is not linear and shrouded in uncertainty, we wonder if the traditional model of hypothesis-falsification really works as the optimal procedure to help in the build-up of an investment portfolio. The repetition of this mechanism has undoubtedly led to a consistent and gradual scientific progression, but should investing in assets with exponential returns be an area where one can apply this model in a similar manner?

In the scientific world, discoveries are treated in a different time dimension. The grinding machine of academic papers filters and purges inconsistent outliers throughout the years and, over time, the knowledge of an entire generation can be condensed. Giants, recurringly, see further by standing atop the shoulders of other giants[3]: from Copernicus to Galileo, Galileo to Newton, Newton to Faraday, Faraday to Maxwell, Maxwell to Einstein, Einstein to Feynman, Feynman to the contemporary proponents of string theory.

When temporal constraints limit the development of adequate knowledge this philosophical-scientific process seems to lose power. A good example of this are the projects built on the drawing board of a visionary, untested entrepreneur: the lack of an objective track record breaches the requirements of falsifiability, resembling the difficult discussions pertaining to the divine. At this point, one inevitably enters the realm of metaphysics, where interesting but scientifically unfalsifiable ideas reside. In a linear world, we could even let go of these more opaque or embryonic investments, despite the potentially high returns that are characteristic of early stages. However, in an environment with exponential features, where businesses take a shortcut given the low necessity of tangible investments, there needs to be an evolution in thinking. Expressing such binary bets in a diversified manner into a portfolio might be an interesting alternative to the purist version of the falsifiability paradigm.

The mature - and by now time-tested - Venture Capital industry, which helped to create several companies of the modern era, may serve as a source of inspiration. As Value Investors, we were educated inside an obsessive model that dictates the avoidance of permanent capital loss within each and every thesis. However, in the contemporary era, we understand that the more rational stance might be to defend ourselves from our inherent provincial cynicism, accepting that the expression of “expected values” must encompass the portfolio as a whole.

At the risk of “Heresy!” being shouted our way this time around, we feel that there is a certain anachronism in the current conduction of portfolio management. A portfolio concentrated in cash-generating, declining incumbents, even if such names are incredibly discounted, can be the true antithesis of downside protection. In addition, the present abundance of capital results in the attribution of stupendously high multiples to mature businesses enjoying some level of growth, just at the moment in time when they are closest to being disrupted.

Naturally, when breaking-up with tradition, we risk being seduced by novelty. Exponential companies aren’t usually backed by tangible cash-flow generation. As such, they force analysts toward the utilization of more ethereal metrics. The farther from the present the model’s premises are situated, the higher the likelihood of creativity defeating rationality. A Pandora's box is opened, heightening the race for analogies. Certain asset categories start to work as vehicles that mostly convey relative opinions, thus leading research away from the analysis of “first principles”.

[3] Adaptation of Sir Isaac Newton’s original phrase: “If I have seen further it is by standing on the shoulders of Giants”

Summing up all the aforementioned factors, we have begun to shyly adjust our sails. We currently hold approximately 10% of our portfolio in companies that, in different stages of development, have as a common feature the status of being a member of the "new economy". A definition that, by the way, is already headed for obsolescence. Some are adaptations of companies and business models "of the past", while others are local innovators of new millennium business models. Although these cases are much harder to evaluate through traditional metrics, we currently see these investments as possessing, in aggregate, a fundamental payoff structure that is superior to several established businesses. The orthodox investor buying traditional banks with their bloated ROEs is the true speculator, not the heterodox who invests in marketplaces with zero accounting net income. A few years ago we would probably have denied vehemently the possibility of a reversal of mindset of this nature. Charlie Munger's alert pertaining to our activity resonates: "It's not supposed to be easy. Anyone who finds it easy is stupid."

"I SEE THE FUTURE REPEATING THE PAST / I SEE A MUSEUM OF BREAKING NEWS"[4]

In Brazil, the average income of the 2.7% richest families is roughly $40,000 a year per capita[5], which compares to an average of about $5,000 for the population as a whole. The average for the OECD is $33,000, while in Denmark it is $40,000[6]. We are a poor country: the income of the richest 3% is in line with the average of developed countries.

It is not by chance that many privileged families - middle and upper middle classes - whose education is at par with the developed world's, have emigrated from the country over the past few decades. Prior to the Venezuelan crisis Brazil had an estimated 0.1 net exits per year for every 1,000 people. For comparison, in the US this rate is positive by approximately 4 net-immigrants for every 1,000 people[7]. The number has declined since its 1990s peak, but it shows that the American dream is still alive and well.

A country with a young population, which does not attract new talent and expels its best, is a sick nation. The sad part is that middle and upper middle class exoduses are typically concentrated in the 0.01% of citizens responsible for causing a disproportional impact on economic development. They get tired of paying excessively for precarious public services and, due to an above average education, manage to leave their country of birth, finally correcting the stork's mistake. It is the famous "brain drain," a warning sign in decrepit corporate cultures and countries alike.

Western countries that grew rapidly in the past century, aside from already established nations, were typically forged by immigrants hungry for upward mobility through education and labor. The American dream of the 19th and 20th centuries symbolizes this situation, attracting diversity and, at certain times, earning the luxurious right to poach the best global talent. It is almost like fishing in a barrel. Brazil today is in an antagonistic situation. We are coveted only by wearied Venezuelans at the border.

For the skilled investor, a relative scarcity of human capital may work as a powerful moat. Companies that create successful corporate cultures perfect the difficult art of luring high potential individuals, and thus earn excess economic profits given the lower degree of relative competition in the country. However, for the average citizen, this situation results in mediocre productivity and income gains.

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[4] Translation of an excerpt from the song "O Tempo Não Para," by Cazuza and Arnaldo Brandão
[5] Source: Families' Budget Survey (POF) - IBGE
[6] Source: OECD
[7] Source: *CIA World Factbook*, 2018

The corporate success of some businesses, coupled with the enrichment of part of the more educated population, does not sustain the long-term dynamics of a country. In a connected world, the fine line sustaining these theoretical balances seems too thin. We have noticed this since the Arab Spring until the more recent example of Chile, which has historically been widely considered the model country for Latin American growth.

The current economic cycle has all the features to stand out relative to other positive periods in our history. However, critical institutional problems regarding healthcare, safety, disorderly urbanization and basic education, which often imprison countries within the "middle-income trap"[8], are becoming more evident in a competitively globalized world. Despite the current resurgence of populist movements, a relative global mobility for the more educated tranches of the population is still quite real. Amid this environment, if we fail to do our grueling and strenuous intertemporal homework, the destiny of our *hermanos*[9], which seems unreal in the country's present context, may dawn upon us in a not so distant future. In this scenario, both the orthodox and the heretic will have abyssal sums of capital destroyed. Unfortunately, when it comes to Latin America, we must pay attention to both portfolio-specific risks as well as potential seismic movements that seemingly have nothing to do with our core business.

As has been repeated exhaustively, Brazil was not made for amateurs. The country currently has a significant opportunity to modernize, but hidden complexities lurk around, some of which might suddenly appear to haunt us. For all their theoretical potential, when Brazilian cycles are on an upward trajectory, they are quickly labeled as forces of nature. Although we account for less than 2% of global GDP, our self-confidence imposes the illusion that we are the locomotive of global growth. At the risk of being excessively skeptical in the initial moments of a cycle, we need to be sure-footed to ensure our balance.

In these moments of marked dissonance between the cyclical and the structural, we always remember the pragmatic figure of the engineer. After all, the pessimist sees a dark tunnel, the optimist sees light at the end of the tunnel, and the realist sees the train in motion. Meanwhile, the engineer only sees three idiots on the tracks. Brazil rewards with good compound returns investors who know how to take advantage of our radical cycles, but who never forget that the name of the game is always survival. The coming years may be fruitful, but one must ponder this view with all the dimensions that the country's inherent complexity poses.

[8] The "middle income trap" is a situation in development economics in which a country that reaches a certain income level starts having difficulties to evolve

[9] Literally translated as "Brothers". This is a nickname Brazilians popularly utilize to characterize the Argentinian people

ATMOS AÇÕES FIC FIA

November 2019

Atmos CAPITAL

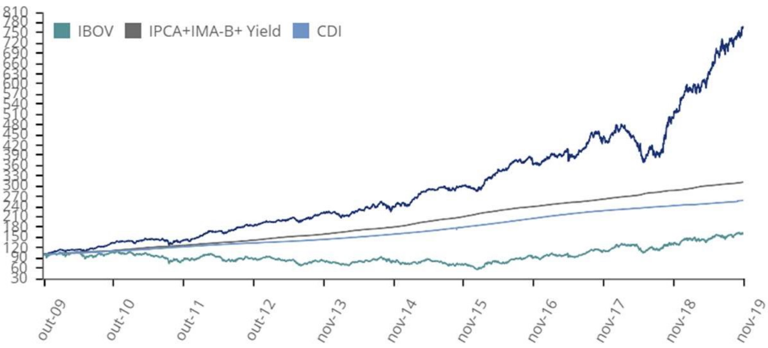
HISTORICAL PERFORMANCE

		Jan	Fev	Mar	Abr	Mai	Jun	Jul	Ago	Set	Out	Nov	Dez	Year
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%	1,04%
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%	4,65%	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%	5,00%	9,78%	-11,70%	0,95%	0,18%	-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%	-3,93%	-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%	38,94%
2017	Atmos Ações	2,97%	2,31%	0,51%	1,64%	-3,59%	1,32%	3,54%	4,94%	4,96%	0,28%	-4,32%	5,05%	**20,85%**
	Ibovespa	7,38%	3,08%	-2,52%	0,64%	-4,12%	0,30%	4,80%	7,46%	4,88%	0,02%	-3,15%	6,16%	26,86%
2018	Atmos Ações	5,96%	-0,36%	-2,44%	-3,97%	-7,89%	-7,41%	7,42%	-2,43%	2,05%	22,00%	4,96%	3,67%	**19,78%**
	Ibovespa	11,14%	0,52%	0,01%	0,88%	-10,87%	-5,20%	8,88%	-3,21%	3,48%	10,19%	2,38%	-1,81%	15,03%
2019	Atmos Ações	10,24%	-1,89%	1,60%	3,58%	3,87%	4,45%	5,04%	2,76%	2,63%	0,98%	3,62%		**43,13%**
	Ibovespa	10,82%	-1,86%	-0,18%	0,98%	0,70%	4,06%	0,84%	-0,67%	3,57%	2,36%	0,95%		23,15%

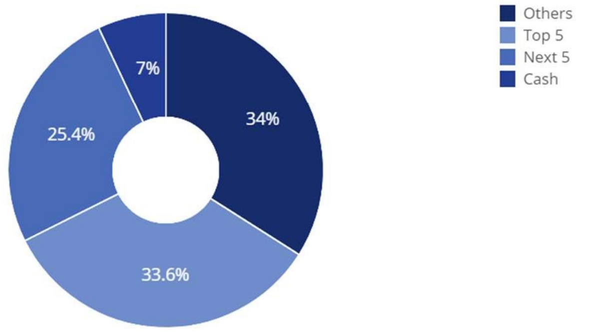
	Year		12M		24M		36M		60M		Since start*	
	Profitability	Volatility	Profitability	Volatility	Profitability	Volatility	Profitability	Volatility	Profitability	Volatility	Profitability	Volatility
Atmos Ações	43,13%	15,81%	48,36%	15,59%	80,11%	17,97%	109,12%	16,78%	205,98%	14,41%	669,56%	12,68%
Ibovespa	23,15%	18,30%	20,65%	18,18%	50,38%	20,06%	74,83%	19,90%	97,78%	22,16%	62,26%	22,31%

PS: Historical performance in R$, net of all fees. Volatility calculated only to trading days.
*The fund started in: Julho 8th, 2016

PERFORMANCE CHART



PORTFOLIO CONCENTRATION



PORTFOLIO

Breakdown by Sector	%
Consumer Discretionary	22,8%
Consumer Staples	6,4%
Energy	13,1%
Financials	5,0%
Industrials	7,3%
Information Technology	8,7%
Materials	3,9%
Real State	10,8%
Utilities	15,1%
Cash	7,0%

Cap Size		% Portfolio
Small	under R$1bi	0,00%
Medium	from R$1 to R$10bi	23,05%
Large	above R$10bi	76,95%

Liquidity	% Portfolio
Cash	7,0%
> 10 MM	91,9%
3 MM a 10 MM	1,2%
1 MM a 3 MM	0,0%
< 1 MM	0,0%

Obs: Average trading volume of the last 20 days.

NAV	R$
Current NAV / Average NAV - FIC FIA**	805,7MM / 681,2MM
Current NAV / Average NAV - Master FIA**	6.699,9MM / 4.710,2MM
Total AUM***	9.732,2MM

PS: Average NAV last 12 months

ADDITIONAL INFORMATION

Inception Date:	08/07/2016
Minimum Investment:	R$50.000,00
Minimum Subsequent Orders:	R$10.000,00
Minimum Balance:	R$20.000,00
Subscription Day	NAV of the following business day
Redemptions	13 days after redemption date (NAV of the 10th business day after request)
Income Tax:	15% tax over nominal returns
Bloomberg:	ATMOSAC <BZ><Equity>
Bank Account:	BNY Mellon Banco S.A. | Ag 001 | C/C 1208-4

Management Fee:[1]:	2,0% a.a. of fund's NAV
Performance Fee:	10% of returns exceeding IPCA+IMA-B Yield* payable annually with high water mark. (*) Detailed description on memorandum.
Manager:	Atmos Capital Gestão de Recursos Ltda.
Administrator[2]:	BNY Mellon Serviços Financeiros S.A.
Prime Broker:	BNY Mellon Banco S.A.
Auditor:	
ANBID Class:	Ações Livres
Fund's CNPJ:	11.145.320/0001-56

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

(1) (2) 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 issuers. Atmos Capital does not sell nor distribute shares of the investment funds or 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.