INVESTIMENTOS

3R Real Estate FIA

Letter to Investors

Letter to Investors – 2nd Edition (4Q2017)

Dear Investor,

The 3R RE FIA fund ended 2017 with a performance of + 32.3%, approx. 5.5% above the Ibovespa and slightly above the 31.9% of the IMOB Index. The year was marked by an slightly improvement, hence lower than expected on the operational side of the companies and the sector, however the positive direction continues to be in line with our investment thesis.

The JBS owners' scandal in May affected the sector more than the rest of the stock market, in our opinion, since it is a very long duration asset and the consumer buying decision is more sensitive to its long-term outlook that became slightly uncertain. Another practical consequence was a more cautious positioning from the companies, which delayed or slowed down the process of new product launches.

In this context, the financial statements of listed homebuilders continued to show a very ugly picture in general, inhibiting the expected improvement of the listed assets.

The voting agenda of the national congress also became more complex and congested, which resulted in the postponement of the project that determined new conditions for the consumer and contractor / developer relationships, with the intention to better regulate the issue of sales cancellation.

What happened since we introduced the product, in August 2016?

On the macro side, economic improvement has been substantially better than anticipated:

i) Inflation has stabilized (at least in the short / medium term), opening space for nominal and real interest rates considerably below anticipated and at some point, it will reflect on the demand for real estate products;

ii) Despite the postponement, we still believe that at some point during 2018, the project that regulates the sales cancelations will be voted;

iii) Confirmation of a very solid and positive microeconomic agenda, with a broad direction to increase the presence of the private sector in detriment of the state. In both ministries, as well as in regulatory agencies and state-owned enterprises, this movement is clear;

On the micro side of the real estate sector, we had:

iv) Gross sales improving Q/Q consistently. However, it is not a linear evolution when observed on a company specific level, because in every quarter there may be specific events influencing the final number of sales, such as the sale of commercial projects of significant size, or the fact of having launches or not in the quarter. By

v) adjusting the numbers by these factors what we can say is that the sales of inventory were stable or improved slightly, sales of launches went very well, also the companies that had launches the sales of inventories were positively influenced with increase of sales.

vi) the companies that launched new products were clearly the ones that improved the most in terms of sales and stopped destroying NAV or minimized this trend, some were even capable of generating NAV;

vii) Sales cancellations, in nominal terms, is in a slow downward trend. But there are clear differences between companies, depending on the volume of deliveries and the inventory profile. We expect a more noticeable improvement for 2018.

That said, what has changed in our investment thesis, and how we believe the fund should be allocated among the different companies?

In our mid-term investment thesis, nothing has changed. On the one hand, we did have some additional destruction of value in the short run given the slower recovery. But our valuations already considered sufficiently conservative assumptions. On the other hand, although hardly visible now, we believe that the potential for value creation of the companies may be even greater than we expected given the better macro scenario.

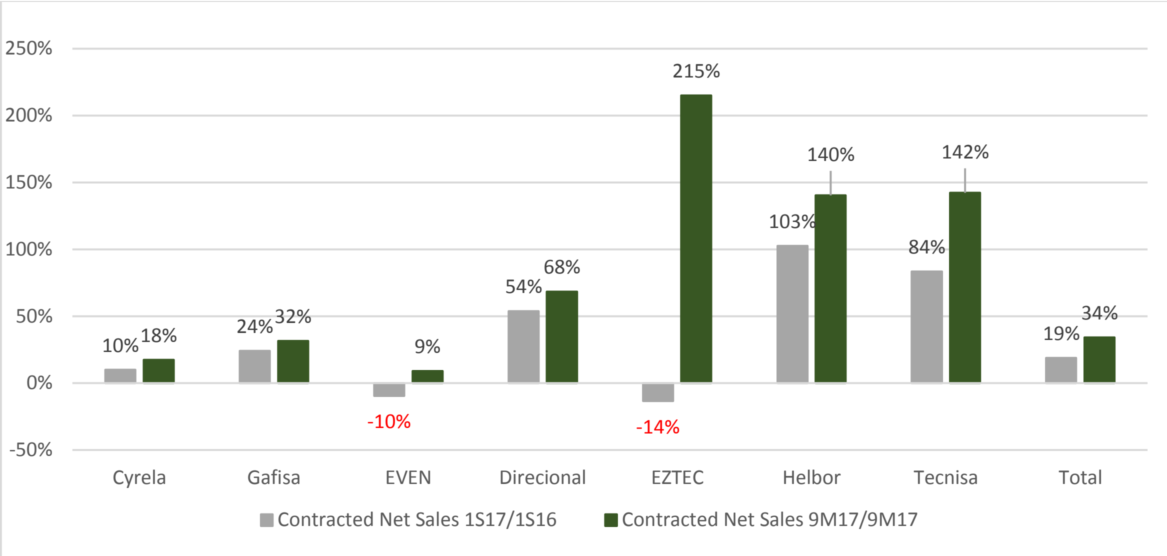
We continue to work on the baseline valuation scenario for companies, which we group into 4 different qualitative / quantitative clusters. But we still find it possible to migrate to the most bullish scenario over time, primarily post-elections in 2018.

On the business side, the short-term was a little different, somewhat difficult for middle-income companies that were our favorites, and better tone for low-income companies. Analyzing the long-term perspectives, nothing has changed, and we continue to prefer companies that target products to medium and high-income families. Among the companies with these characteristics, we prefer those trading at a good discount to BV or NAV, and with some financial leverage (given they have no relevant liquidity risk) and with operational leverage (those that have adjusted their G&A over the past few years).

Within this context, we have adjusted the portfolio to this short term somewhat different than we anticipated. We reduced a position that was very large at the beginning of the fund to one of the most discounted medium / high income players in terms of NAV, but had a short term of negative accounting numbers. We increased our exposure to low income (today close to 35% of the portfolio). And increase our position in Gafisa (GFSA3) at the beginning of the second half, which we thought was very discounted and with a very good operational momentum. This position was very positive, but terminated before the conclusion of the capital increase, given the strong appreciation (approx. + 70% in 3 months).

The operational turnaround of the companies has started, but should accelerate in 2018 with more consistent launches and the decrease of the sales cancellations.

Net Contracted Sales Evolution



Source: Company Reports and 3R Investimentos.

As mention in the previous letter, the fall in sales cancellations will be a consequence of the lower volume of deliveries in the year, reflecting the fall of launches between 2014 and 2015.

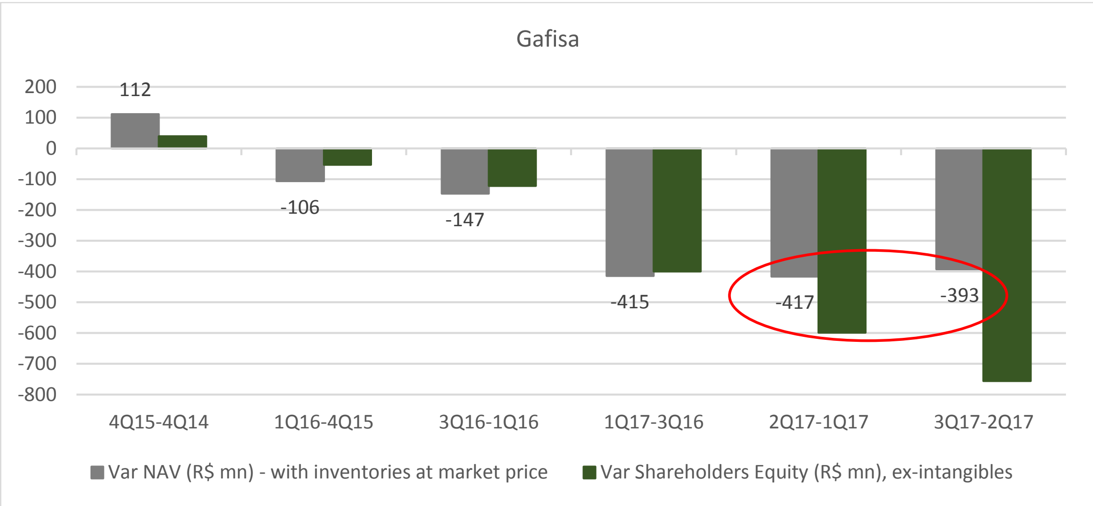
Launchings and Deliveries Evolution

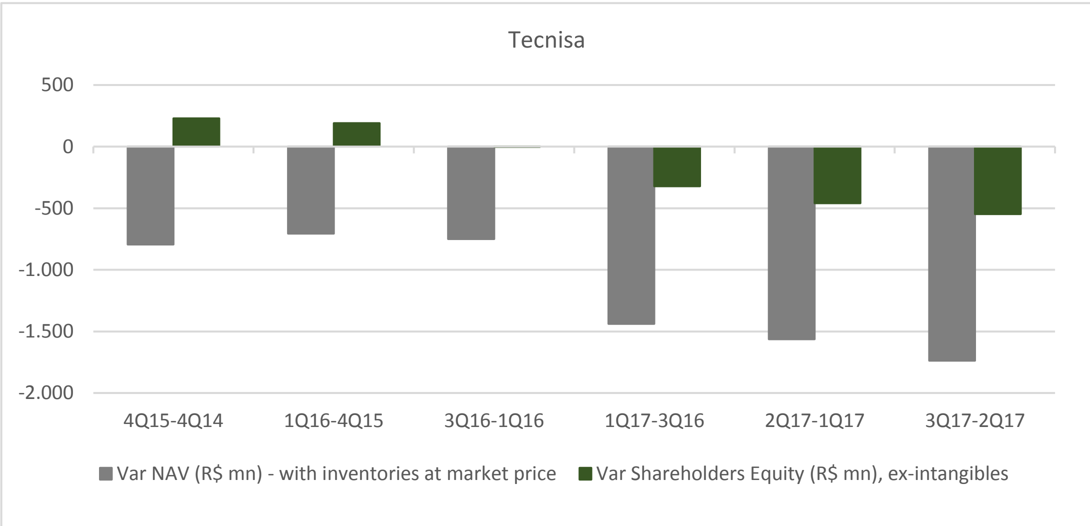
3Q17	Cyrela	Gafisa	EVEN	Direcional	EZTEC	Helbor	Tecnisa	Total	Var YoY
Deliveries									
2012 (VGV R$ mn)	5,836	2,298	2,270	828	362	857	852	13,303	
2013 (VGV R$ mn)	5,783	1,329	2,186	839	1,007	1,445	1,394	13,983	5%
2014 (VGV R$ mn)	6,799	1,648	2,758	887	1,180	1,628	1,989	16,888	21%
2015 (VGV R$ mn)	6,807	2,375	2,377	383	1,087	1,564	1,850	16,442	-3%
2016 (VGV R$ mn)	**7,894**	**1,746**	**2,447**	**559**	**1,086**	**1,570**	**2,230**	**17,532**	**7%**
2017YTD (VGV R$ mn) - Anualized	**5,045**	**1,094**	**1,735**	**774**	**248**	**2,167**	**278**	**11,341**	**-31%**
Launchings									
2012 (VGV R$ mn)	5,597	1,609	2,801	698	1,184	1,835	1,199	14,922	
2013 (VGV R$ mn)	6,646	1,023	2,931	586	1,915	1,972	2,522	17,595	18%
2014 (VGV R$ mn)	4,853	1,088	2,225	493	1,068	1,263	814	11,804	-33%
2015 (VGV R$ mn)	2,898	996	900	502	197	348	27	5,869	-50%
2016 (VGV R$ mn)	**2,937**	**921**	**1,316**	**832**	**205**	**281**	**404**	**6,897**	**18%**
2017YTD (VGV R$ mn) - Anualized	**2,379**	**618**	**987**	**674**	**91**	**517**	**0**	**5,266**	**-10%**
Net Contracted Sales									
2012 (VGV R$ mn)	6,006	1,600	2,029	620	876	1,536	1,408	14,075	
2013 (VGV R$ mn)	7,175	961	2,440	697	1,607	1,428	2,424	16,733	19%
2014 (VGV R$ mn)	5,684	811	1,726	468	881	1,013	829	11,413	-32%
2015 (VGV R$ mn)	3,390	915	1,429	390	412	378	608	7,522	-34%
2016 (VGV R$ mn)	**2,766**	**811**	**1,026**	**494**	**76**	**261**	**385**	**5,819**	**-23%**
2017YTD (VGV R$ mn) - Anualized	**2,675**	**798**	**1,366**	**713**	**87**	**459**	**444**	**6,541**	**12%**

Source: Company Reports and 3R Investimentos.

At the beginning of this adjustment process, the destruction of NAV was much higher than that of shareholders' equity, since a large part of the adjustment was in the value of inventories at market value., this adjustment began to be seen more sharply in the book value of companies. This dichotomy is even more noticeable in companies that have started launching products, which have reduced the speed of value destruction, or even creating some value, however they continue to have significant accounting adjustments (reduction of net book value).

NAV x Shareholders Equity Evolution





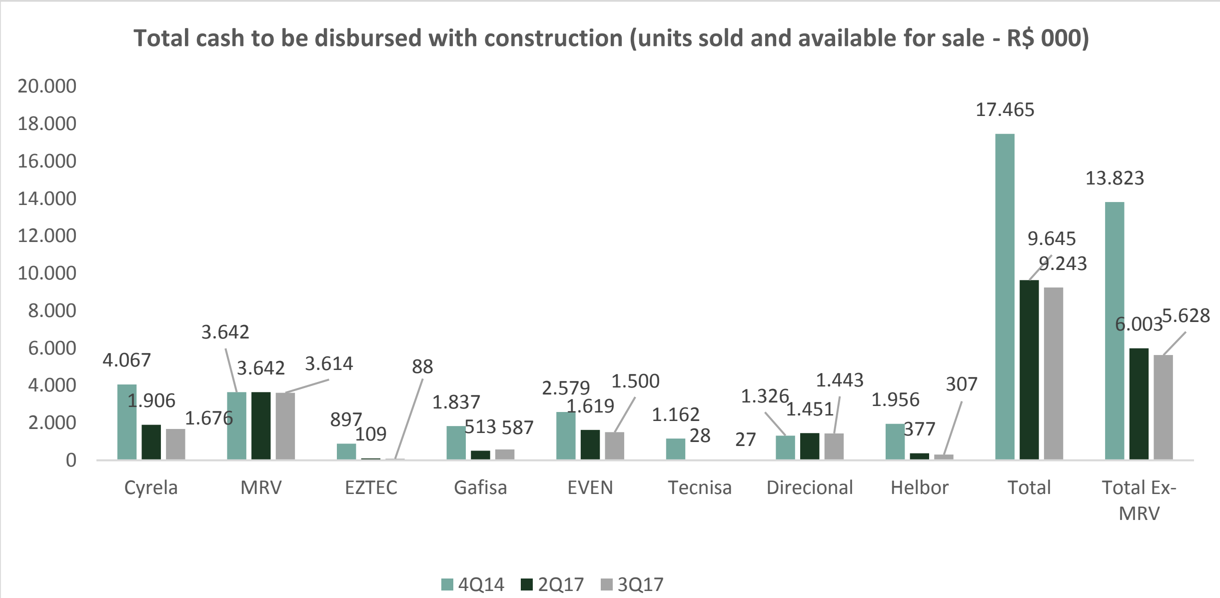
Source: Company Reports and 3R Investimentos.

In general, we have a clear perception that the adjustment in stockholders' equity was excessive, and this will be reversed over time with NAV's "transformation" into accounting profit. Obviously, this will depend on the next business cycle, with normalized demand and sales cancellations returning to normal historical levels.

What do we expect for the short term? Where can our investment thesis be wrong or can it go wrong?

Operational improvement of companies, with higher net sales and net cash generation, is expected to continue Q/Q. The revamp or acceleration of launches should be gradual, more limited in 1Q18 due to seasonality and better in 2Q18, from there it should continue improving, but it may suffer from uncertainties in the political scenario.

Cash Flow improvement reasonable "contracted"



Source: Company Reports and 3R Investimentos.

In general, companies have reduced considerably their operational risk, either through a strong reduction of the structure (and fixed costs, G&A), through a focus of a more limited geographic operation, and by minimizing the number of the construction sites. Most of them are dimensioned for a volume of launches close to what they had before doing an IPO in 2006/2007, or even smaller.

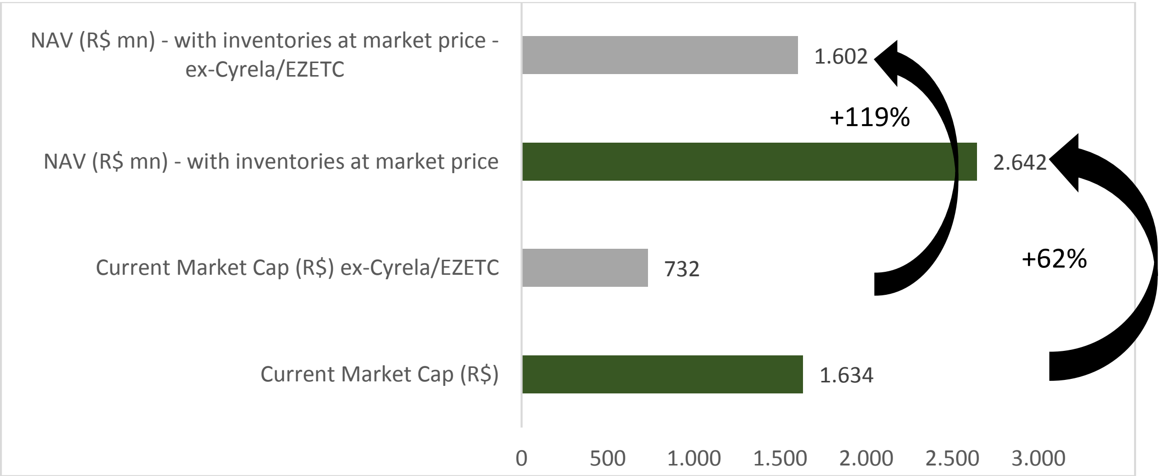
In this context, even in a more adverse scenario where the resumption of launches has to be slower, the cash flow will continue to be positive and businesses should return to be profitable at reasonable levels. This adverse scenario does not contemplate a crisis with GDP falling to 4% as we saw in 2015/2016. It seems unlikely given the improvement of the economic activity and the financial deleveraging due to lower real interest rates (2.5% - 3.00%).

Also on the financial risk the companies have adjusted their capital structure. On some of the companies that we have on our radar and / or portfolio the adjustment has not fully occurred. The prospect of stronger cash generation is very concrete and should lead to the necessary adjustment.

Accounting numbers should remain weak until at least 2Q18, obviously varying from company to company.

Despite the reasonable performance of the shares in 2017 and a more difficult reality on the operational side that has destroyed value, we still see a lot of potential in the industry. The GAP between the market value and the NAV value we calculate is still significant, and we can glimpse a scenario in which companies return to generate positive NAV in the short / medium term.

Valuation Sensitivity



Source: Bloomberg and 3R Investimentos.

Best Regards,

3R Investimentos Team