LUXOR INVESTIMENTOS

Investors Letter

March 2023

Manager's Message

In our first semi-annual letter, we discussed the improvements in our funds' structure, our investment philosophy, and how we deal with challenging moments such as the year of 2022. ***In this second letter, we will explain the new mandate of Luxor Mangalarga, focusing on the reasons why we defined its new target return in dollars and provide an update on our performance and in the portfolio.***

1. The New Mandate

Aiming to improve our investment practices, we have made some recent internal changes, such as defining a new way of communicating with investors and redesigning the fund structure, as we explained in our previous letter. At the turn of the year 2022, we made another important adjustment: we redefined the mandate of Luxor Mangalarga. In essence, very little has changed. The fund continues to focus on investing in businesses, has a simple cost structure that is compatible with its long-term investment horizon (no performance fees, only management fee), and has the prerogative to allocate capital globally.

However, the biggest change was the definition of a new return target for the fund of CPI US[2] + 6.5% in dollars, in line with the group's return objectives. Additionally, we chose not to define a risk limit based on volatility, but rather on geographic and asset concentration limits and a maximum capital loss guideline of 30%. A summary of the new mandate is provided in the table below. We remain available for further clarifications if needed.

Luxor Mangalarga FIC FIA	
Category	Global Equity Fund
Investment Strategy	Fundamentalist Equity Biased
Base currency	USD
Target Return	CPI US + 6.5%
Concentration limit	Individual Asset | Max 15%
Geography	Developed Markets | 50-100% Brazil | 0-50%
Subscription Redemption	S:D+0 | M+0 R: D+0 | M+1
Management Fees	2.1% (2% Luxor + 0.1% BTG)
Performance Fee	0%

[1]CPI US is the USA inflation index.

We will focus on the reasons why we chose to define the fund's return target in dollars

2. The New Target Return

Throughout 2022, we extensively debated the pros and cons of setting the fund's target in dollars during the process of building the new mandate. We are certain that the topic does not have an obvious answer since it touches on both technical considerations of best capital management practices and strategic decisions whose practical result involves risk. We will present here the main points we considered when making this decision and share with you the rationale behind our choice.

2.1 The global component in consumption

Ultimately, we aim to use the income generated from the assets we own for consumption. Therefore, it is of fundamental importance that there is alignment between our liabilities – our consumption needs – and our assets. So, we should ideally save in the same currency in which the goods and services we consume are denominated to minimize the impact of currency risk on our investments. However, this perfect alignment between assets and liabilities is much more difficult than it seems in practice, for two reasons: the global integration of goods markets and the international component of individuals' consumption baskets.

Regarding the first point, it is important to note that a significant portion of what we consume consists of “tradable" goods, which are those negotiated in global markets. These goods have their price determined internationally and generally in dollars. Therefore, regardless of where we reside, the cost of these goods is directly influenced by fluctuations in the purchasing power of the local currency. Additionally, it is common for people to have some of their expenses on travel and purchases abroad.

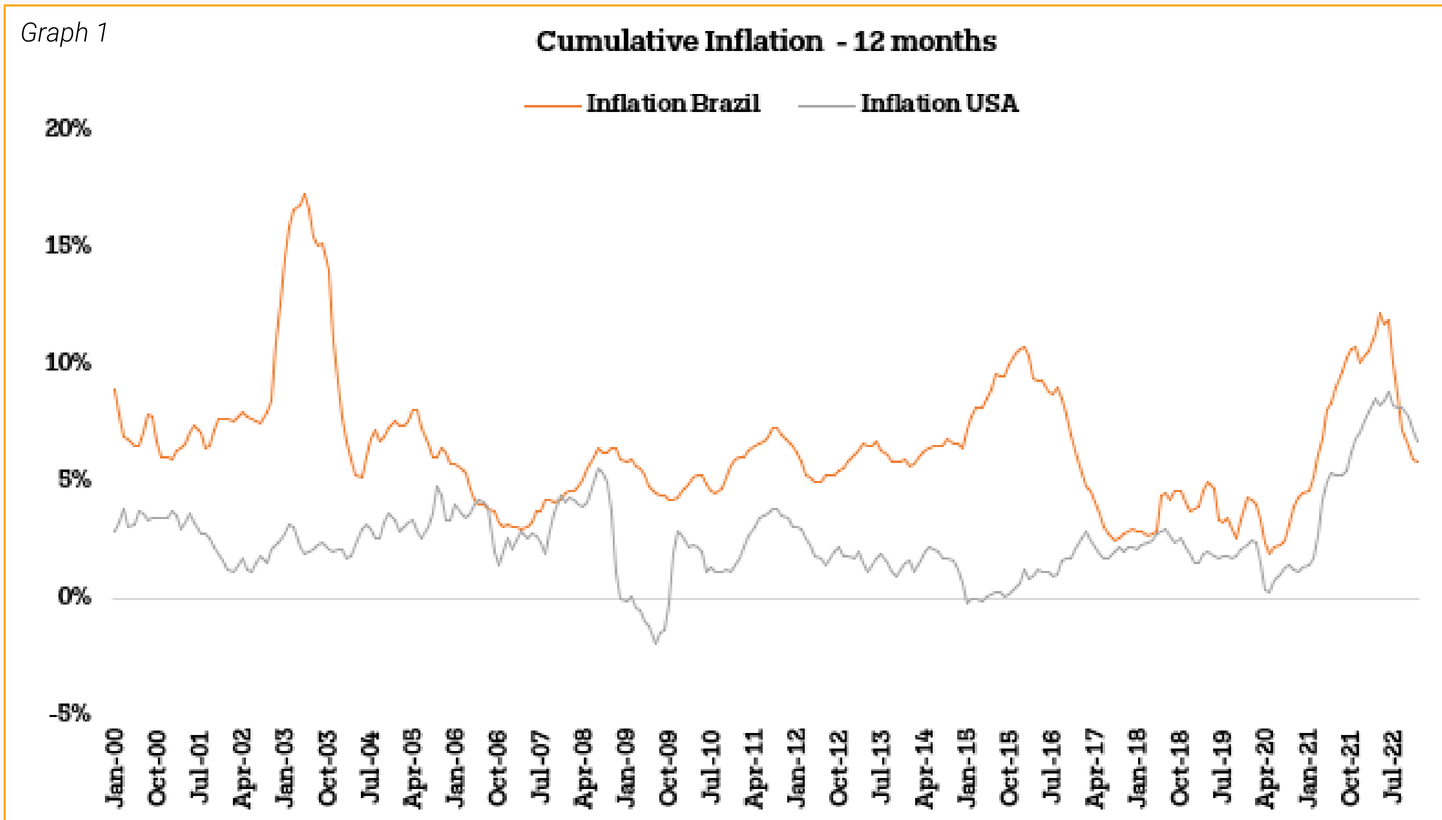
Combining these elements, we estimate that a significant portion of everything a high-class person living in Brazil consumes is "dollarized." Therefore, a portfolio composed only of local assets would have a significant currency risk embedded in it. For someone living in the US, the same concept would apply, but since international commodity prices are defined in dollars, the "foreign" component of their consumption basket would be much lower.

2.2 The dollar as a store of value

The second important point that supported our decision to measure our assets in dollars is the dollar's better capacity to preserve its purchasing power over time. Measuring purchasing power is not an easy task. In addition to the volatility of exchange rates, inflation indices in each country differ, making it difficult to construct a precise measure of the relative evolution of purchasing power of two currencies. Therefore, we present two ways to observe this point by comparing the Real and the Dollar: inflation in both countries and the relative purchasing power of the currencies measured in ounces of gold.

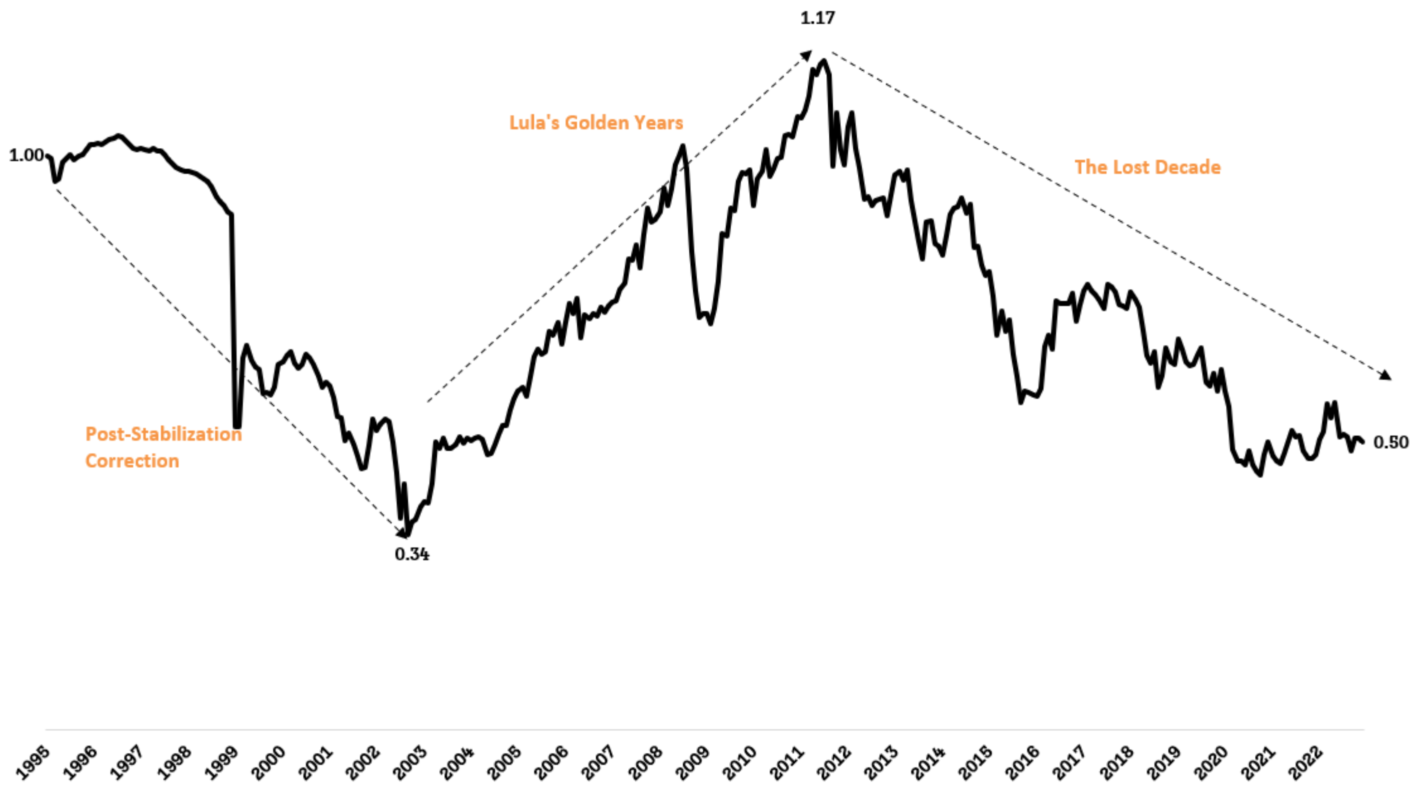
First, knowing that inflation is, by definition, the loss of purchasing power of a currency over time, the simple observation that inflation in Brazil is not only higher but also more volatile than in the US is evidence that the purchasing power of the Dollar is more stable and predictable over time (Graph 1).

Graph 1



Graph 2

Evolution of the purchasing power of the Real against the Dollar (R$/US$)



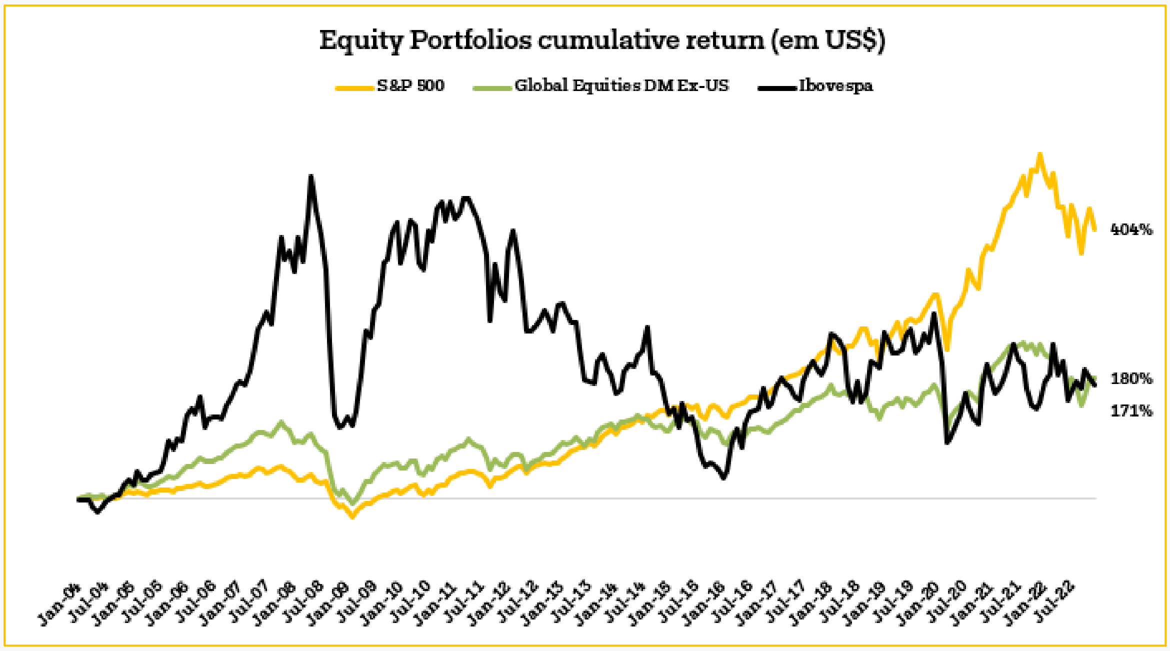
Secondly, the evolution of the amount of gold that one unit of Real buys compared to the Dollar shows that not only does the relative purchasing power of the Real varies greatly - having even increased significantly in the first decade of the 2000s - but it also halved in 2 decades (graph 2).

It is important to note that this was the history of the period in question and there is no guarantee that the same will repeat in the future. However, considering that the variations in the value of a currency over time is directly linked to the strength of the economy of its issuing country (institutional quality, financial stability, political stability, and productivity gains), we believe that saving in dollars poses a much lower risk of purchasing power loss in the long term.

2.3 The attractiveness of investments in the US

As business investors, we dedicate our time to seeking successful corporate stories. We believe that the success of companies stems from the combination of extremely talented individuals with a winning corporate culture and a clear value generation proposition that is associated with innovation and the construction of solid competitive advantages. Despite identifying many talented and successful entrepreneurs in Brazil, with a turbulent political environment and an unfavorable business environment, it has been difficult to find investment opportunities that excite us.

At the same time, we are increasingly encountering successful corporate stories outside Brazil, especially in the United States. In our view, this is not just a coincidence, but rather a consequence of fundamental elements of the US economy. The combination of excellent educational institutions, greater legal certainty, less regulation, the availability of talented individuals, and other factors creates a fertile environment for good entrepreneurs to prosper. In addition, because the American financial market plays a central role in the global economy, the supply of assets is broader than in the Brazilian market. Finally, many of the companies domiciled in the US have global businesses, which provides us with geographic diversification. We believe that these are not circumstantial, but rather structural circumstances, and consequently, an increasing share of our capital has been allocated to the US. The good performance of US companies compared to the rest of the world in the past is evidence in favor of this thesis. The graph below shows the relative performance of S&P 500 (US stocks) against the VEA ETF (basket of stocks from developed countries excluding the US) and the Ibovespa since 2004.



3. Update on Performance and Portfolio Adjustments

Since we believe that the best way to analyze the Luxor Mangalarga FIC FIA return is in long-term windows, we present below the cumulative return in 12, 36, and 60 months.

In 2022, our underperformance was mostly due to losses in the Brazilian stocks we held in the last quarter of 2022. Regarding the portfolio, the main adjustments were three: first, we decided to divest from some stocks - specifically XP, Localiza, and Mercado Livre.

Additionally, at the turn of 2022 to 2023, we divested from some funds and increased investments in stocks that were at attractive prices after the drop in the stock markets in 2022. Finally, it is worth noting the investment in LVMH, after a thorough study of the luxury retail sector, the management team, the company's business strategy, and its market value. As a result of these reallocations - and also our desire to have a smaller exposure to the "Brazil risk" given the troubled political and economic environment - we reduced the share of investments in Brazil in the portfolio.

Luxor Mangalarga FIC FIA	
Period	**Return % (a.p. in R$)**
2023	+2.44%
12 months	-13.54%
36 months	+44.40%
60 months	+68.77%

CONCLUSION

First, it is worth reiterating that we remain focused on achieving our return target in a disciplined and prudent manner. We consider that the new mandate is a better expression of what we are doing, a necessary formalization, even though in essence our investment practice remains intact. Nevertheless, the new mandate is the latest in a series of adjustments we have made at Luxor recently that will certainly contribute to even better results in the future.

We also hope that the rationale for defining the mandate in dollars has become clear to everyone. In summary: (1) we consider that the majority of our consumption basket is dollarized and therefore it makes sense to save in dollars, (2) the dollar is a better choice as a form of savings from the point of view of preserving the purchasing power of our capital, and (3) the fundamentals of the US economy promote a business environment that is more conducive to the development of companies, and therefore we consider that the US has and will have better investment opportunities, (4) the global aspect of the American companies in which we invest improves the geographic diversification of our investments. With all of this, it is important to emphasize that our capital allocation remains global, meaning that we can still choose to invest in Brazil, Europe, the US or Asia as opportunities arise.

Finally, since everything we do involves dealing with risks rather than certainties, the rationale presented here regarding the dollarization of the fund is an example of how we approach the decisions under uncertainty that are part of our daily work. We make decisions based on deep and rational analysis combined with our worldview, which is the difficult mission given to the investor. Our approach is not to try to guess or predict anything, but we believe that by basing our decisions on well-made analyses and diligent study of the world and the businesses in which we invest, we will be able to achieve our goals.

Sincerely,
LUXOR INVESTIMENTOS