MANAGEMENT REPORT

2nd and 3rd Quarters of 2014

EDGE INVESTIMENTOS

Contents

Indicators

Long-Term Performance

Below we present the long-term performance of Edge Value FIA.

We believe that the fund's performance must be analyzed at least in a three-year horizon.

As usual, we would like to remind you that our goal is to obtain an absolute return in the long term, higher than our cost of capital, with controlled risk for permanent losses.

We do not expect to outperform the Bovespa Index every month and every year. On the contrary, a conservative posture is expected to underperform the market during euphoric times.

The charts below present the return on the fund and the performance of a simulated investment of R$1,000.00 made at the opening of Clube San Francisco, the vehicle that originated Edge Value FIA. In both cases, we compare our performance with those of the CDI and Ibovespa.

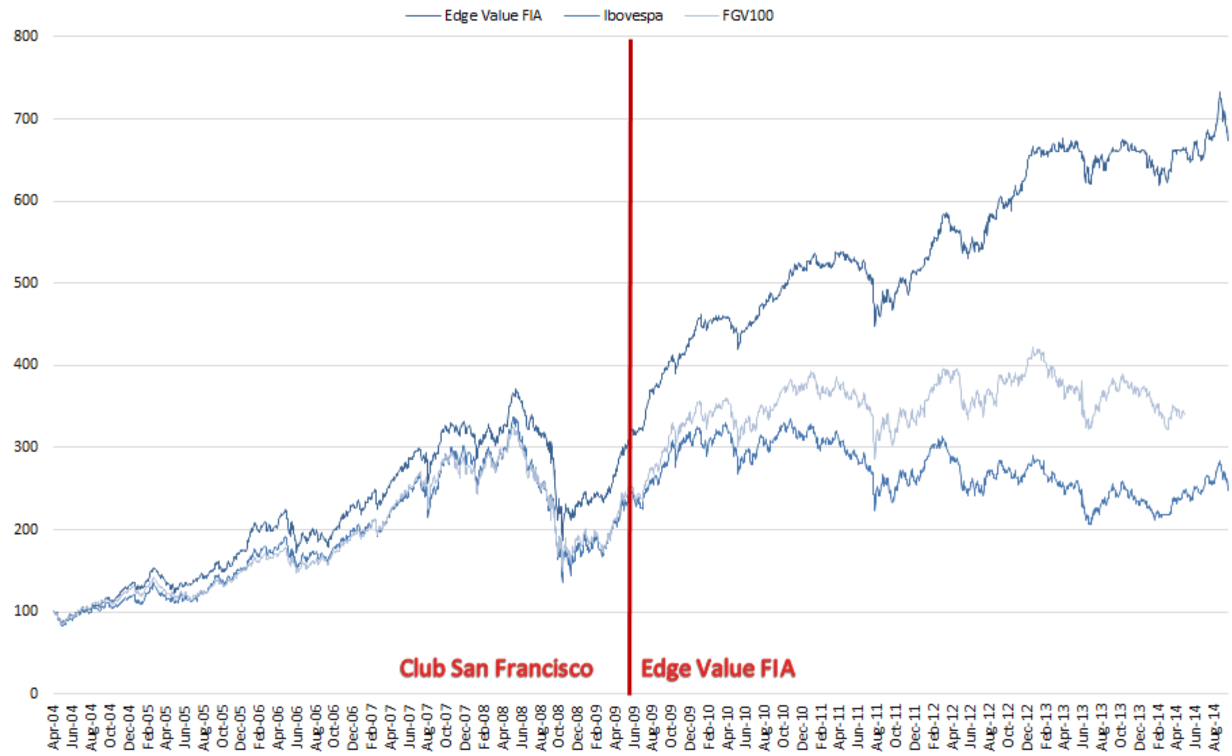
	Period	Return (%)			Performance of a simulated investment of R$ 1,000.00		
		Edge Value	IBOV	CDI	**Edge Value**	IBOV	CDI
	4Q 2014	**-**	-	-	**-**	-	-
	3Q 2014	**3,1%**	1,8%	2,7%	**R$ 6.755**	R$ 2.486	R$ 3.254
	2Q 2014	**0,5%**	5,5%	2,5%	**R$ 6.554**	R$ 2.442	R$ 3.168
	1Q 2014	**-1,4%**	-2,1%	2,4%	**R$ 6.522**	R$ 2.316	R$ 3.090
	YTD	**2,1%**	5,1%	7,8%			
	2013	**0,25%**	-15,50%	8,06%	**R$ 6.615**	R$ 2.590	R$ 3.018
	2012	**27,8%**	7,4%	8,4%	**R$ 6.599**	R$ 3.065	R$ 2.793
	2011	**-1,9%**	-18,1%	11,6%	**R$ 5.162**	R$ 2.853	R$ 2.576
	2010	**19,0%**	1,1%	9,8%	**R$ 5.262**	R$ 3.484	R$ 2.309
	2009	**85,8%**	82,7%	9,9%	**R$ 4.422**	R$ 3.448	R$ 2.104
Investment Club	**2008**	**-27,2%**	-41,2%	12,4%	**R$ 2.380**	R$ 1.888	R$ 1.915
Investment Club	**2007**	**40,3%**	43,7%	11,8%	**R$ 3.269**	R$ 3.212	R$ 1.704
Investment Club	**2006**	**33,1%**	33,7%	15,0%	**R$ 2.330**	R$ 2.235	R$ 1.524
Investment Club	**2005**	**29,2%**	27,1%	19,0%	**R$ 1.750**	R$ 1.671	R$ 1.325
Investment Club	**2004***	**35,4%**	31,5%	11,3%	**R$ 1.354**	R$ 1.315	R$ 1.113
	Since inception	575,5%	148,6%	225,4%			
	Annualized return	19,3%	8,8%	11,5%			

*Data from 04/15/2004 to 01/13/2009 refers to the Clube de Investimento Edge Value (the former Clube San Francisco and incorporator of the Clube Triumph). The conversion date for the Edge Value FIA was 01/14/2009.

Av. das Américas 8445, Sala 606
Barra da Tijuca – Rio de Janeiro – RJ
Tel.: 21.2421.4262

Performance Details

Below we present a performance comparison chart and a table with details on the fund's return.



2014	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Ano
Edge	-3,56%	0,19%	2,02%	1,40%	-2,16%	1,28%	3,08%	6,56%	-6,16%				2,10%
Ibov	-7,51%	-1,14%	7,05%	2,40%	-0,75%	3,76%	5,00%	9,78%	-11,70%				5,06%

2013	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	YTD
Edge	0,02%	0,50%	1,30%	-0,60%	-0,99%	-3,15%	0,99%	-0,15%	2,31%	1,84%	-0,91%	-0,78%	0,25%
Ibov	-1,95%	-3,91%	-1,87%	-0,26%	-2,28%	-11,30%	1,64%	3,68%	4,65%	3,66%	-3,27%	-1,86%	-15,50%

2012	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Full Year
Edge	2,85%	5,45%	3,63%	-2,78%	-3,65%	1,03%	2,31%	3,01%	2,05%	2,58%	2,98%	5,81%	27,84%
Ibov	11,14%	4,34%	-1,98%	-4,17%	-11,86%	-0,25%	3,21%	1,72%	3,70%	-3,56%	0,71%	6,05%	7,40%

2011	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Full Year
Edge	-0,23%	-0,36%	1,92%	0,77%	-1,15%	-0,64%	-3,98%	-4,93%	-0,23%	4,95%	-0,66%	3,04%	-1,90%
Ibov	-3,94%	1,22%	1,79%	-3,58%	-2,29%	-3,43%	-5,74%	-3,96%	-7,38%	11,49%	-2,51%	-0,21%	-18,11%

2010	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Full Year
Edge	1,77%	0,91%	0,89%	-1,99%	-1,80%	1,94%	4,61%	2,70%	0,38%	3,95%	3,30%	1,06%	18,99%
Ibov	-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%

2009	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Full Year
Edge	0,27%	1,89%	2,17%	15,54%	8,37%	3,65%	10,76%	4,98%	5,91%	-0,44%	5,86%	5,67%	85,79%
Ibov	4,66%	-2,84%	7,18%	15,55%	12,49%	-3,26%	6,41%	3,15%	8,90%	0,05%	8,93%	2,30%	82,66%

Av. das Américas 8445, Sala 606
Barra da Tijuca – Rio de Janeiro – RJ
Tel.: 21.2421.4262

Initial Commentary

Introduction

The past six months were especially volatile, as the market adjusted asset prices to the elections scenario, whose consequences seemed to make or break the Brazilian economy. During such period, which started after the tragic death of Eduardo Campos, we saw the stock exchange advance 11% with the Marina "wave", followed by a 15% drop resulting from the "deconstruction" of the candidate by the incumbent party, PT, followed by a period of high volatility in which election polls would define the market.

The avid reader of our reports is used to finding themes related to microeconomic aspects of companies, the industries in which they operate, their financial results and, eventually, the executives responsible for cash flow management and allocation. Rarely do we foray into macroeconomic themes because we believe that its enormous complexity sharply reduces the precision of projections, so much so that John Kenneth Galbraith once said that "The only function of economic forecasting is to make astrology look respectable."

In this report, however, we will make an exception, commenting superficially on the recent developments of economic policy, its impact on the value of assets and the positioning of our portfolio.

****

The performance of the Brazilian economic policy in the past four years has been mediocre at best. During this short period, the operational autonomy of the Central Bank was put in jeopardy, the primary result (year through September) became negative – for the first time since 1994, creative accounting was reintroduced and artificial price controls caused damage to the electrical and ethanol industries, as well as to Petrobras.

This list of factors – which is not meant to be complete – led to a general worsening of confidence of the private sector, potentially having severe consequences on the macroeconomic environment in the coming years, with relevant contagion channels to the economic value of Brazilian assets, of which we highlight:

1. **Slower economic growth** means slower demand for products and services, thus reducing the capacity of companies to dilute fixed costs and pass on to consumers the rising price of inputs. This effect, which is already noticeable on recent corporate balance sheets, is more pronounced in cyclical industries, at companies with high operating leverage and small supply flexibility.

2. **The inevitable tax hikes** (or discontinuity of tax breaks), necessary for rebalancing public accounts, should "dent" a larger slice of the profitability of listed companies, (probably) more intensely in the industries that featured good performance recently. In addition, we expect maintenance of the tax collection momentum at the Federal Revenue Service.

3. **Permanence of inflation at high levels**[1] erodes the value of company assets, demanding a bigger share of the cash flow just to maintain the same level of activity, be it via elevation of working

[1] In order to know more about inflation and investment in stocks, we recommend reading our 1Q11 management report (http://edgeinvestimentos.com/wp-content/uploads/2014/12/Edge-Management-Report-1Q14.pdf) and the classic article "How Inflation Swindles the Equity Investor" (http://pt.scribd.com/doc/63836289/Buffett-How-Inflation-Swindles-the-Equity-Investor), written by Warren Buffett in 1977.

Av. das Américas 8445, Sala 606
Barra da Tijuca – Rio de Janeiro – RJ
Tel.: 21.2421.4262

capital or reinvestment in fixed assets. In summary: when inflation is higher, there is less free cash flow for the same EBTIDA.

4. **The elevation of cost of capital**, following the macroeconomic derailment and the interest rate hikes due to elevated inflation, reduces the present value of cash flows. All things being equal, the return demanded by a rational investor in order to buy any asset in Brazil should be higher today than it was four years ago.

Against this backdrop, we face the challenge of picking stocks that, in the long term, fetch high absolute returns with controlled risk for permanent losses.

Preliminarily, still in the field of economic policy, it is important to separate the facts from noise seen in the past few months. Election periods are always complicated and prone to exaggerations and demagogy. Taking the speech of any candidate at face value is a mistake, because during the campaign period everyone avoids the announcement of unpopular measures while not considering the reality imposed by budget restrictions.

We exited these elections with a stronger opposition and a government with little room for maneuvering, and with a huge need to recover the lost credibility in an effort to lure private investment, without which the unemployment rate – the only positive economic variable so far – will certainly rise.

This way, we consider the realization of adjustments at the beginning of this new term to be in the best interests of the PT party itself, not only on the fiscal side - at the right intensity to avoid losing the investment grade - but also on the microeconomic level and in the relationship with businessmen.

It is likely that Dilma Roussef's second term, though far from ideal, should exceed the expectations of those who are highly pessimistic.

More importantly, however, is that even while maintaining the weak recent economic performance, it is possible to fetch satisfactory returns on a portfolio with high-quality companies, especially with the current valuations. We believe that, when it comes to stock picking, the micro overwhelms the macro - as we will see further ahead.

Micro vs. Macro

"We don't get into macro. It just doesn't make any difference."
Warren Buffett

The Warren Buffett quote is clearly an exaggeration. Naturally, the belief in the institutions, the reliability of rules within the rule of law and the guarantee of a currency's purchasing power are fundamental variables for the performance of companies.

The crucial point in Buffet's quote is that, given the necessary minimum conditions at the macro level, the microeconomic features end up determining the success of the long-term investment, regardless of variables such as GDP growth, productivity and investment rate, for example.

Economic growth, per se, does not ensure high returns for stock exchange investors[2].

We are not contending here that economic growth is bad for stocks. In the short term, there is ample evidence that stock prices rise due to the unexpected elevation of economic growth. Unfortunately, there is also evidence pointing to the impossibility of anticipating such surprises in a consistent manner through time.

The important message is: in the long term, economic growth only adds value to the shareholder when it is derived from the reinvestment of the companies' profit in projects with positive present value. Economic growth stemming from the elevation of investment from internal and external savings in new business and companies, though it is great for the country, is indifferent – and sometimes even harmful – to stock exchange investors. The same applies to productivity gains that, very often, are reverted in the consumer's benefit.

This way, an investment process that chooses high quality assets – and satisfactory returns on the employed capital – is pivotal, not only from a microeconomic perspective, which includes the rivalry among the competitors, the necessary requisites to entry and the relationship with suppliers and clients, for example, but also in intangible aspects such as the corporate culture and management quality.

Moreover, this investment process has proved to be a good hedge against the obstacles mentioned at the beginning of this letter, such as inflation and tax hikes, as these same microeconomic and intangible attributes usually ensure a lower price-elasticity of demand and the capacity of timely response.

Portfolio Positioning

In the management report from the last quarter of the past year we wrote:

[2] For more details on economic growth vs. equity returns, we recommend reading the work by Prof. Jay Ritter, from the University of Florida: https://dl.dropboxusercontent.com/u/21706128/20141201_JayRitter_Equity.pdf

Av. das Américas 8445, Sala 606
Barra da Tijuca – Rio de Janeiro – RJ
Tel.: 21.2421.4262

"Regarding 2014, we believe that it should be very similar to its preceding year, with weak growth and inflation at the top of the target range. Given that this is an election year, the government will hardly adopt a more restrictive fiscal policy, making the Central Bank's work harder and an eventual change in trajectory for 2015 more costly.

Despite the difficulties in the macroeconomic scenario, we entered 2014 with slight optimism. After almost three years of scarce opportunities and a high level of cash on hand, we started to see stocks with adequate prices compared to the current Brazilian reality, even taking into account a higher cost of capital. We have, therefore, gradually increased our exposure, both in stocks already in the portfolio as well as in some new positions. Last, we increased the time dedicated to analyzing new sectors, whose fundamentals we always considered to be interesting, but whose exaggerated valuations made time allocation inadvisable. "

We reached the end of 2014 with a higher exposure to stocks and with investment in new industries such as infrastructure and consumer goods. Currently we have approximately 20% of the assets as cash, versus 30% in the past few years.

The portfolio's composition today is similar to that at the beginning of the year, concentrated on 15 companies that in general feature low risk, with simple business models, low leverage and small exposure to commodities.

Maybe the major change was the addition of new names, whose significant price drop ensured us the necessary margin to invest. The three new positions that we added during the quarter plunged 28%, 38% and 68% in 2014, which we deem exaggerated and not in line with the economic performance of these assets.

For two years the fund's share has been basically stable and, although it has been well ahead of the Ibovespa in this period, it is behind the CDI and inflation itself. Meanwhile, the companies have invested in new businesses, shopping malls, factories, technologies, made acquisitions, so they have grown in intrinsic value. This dichotomy of behavior between market value and intrinsic value significantly increased the margin of safety of the portfolio, which supports our decision of raising our exposure throughout 2014.

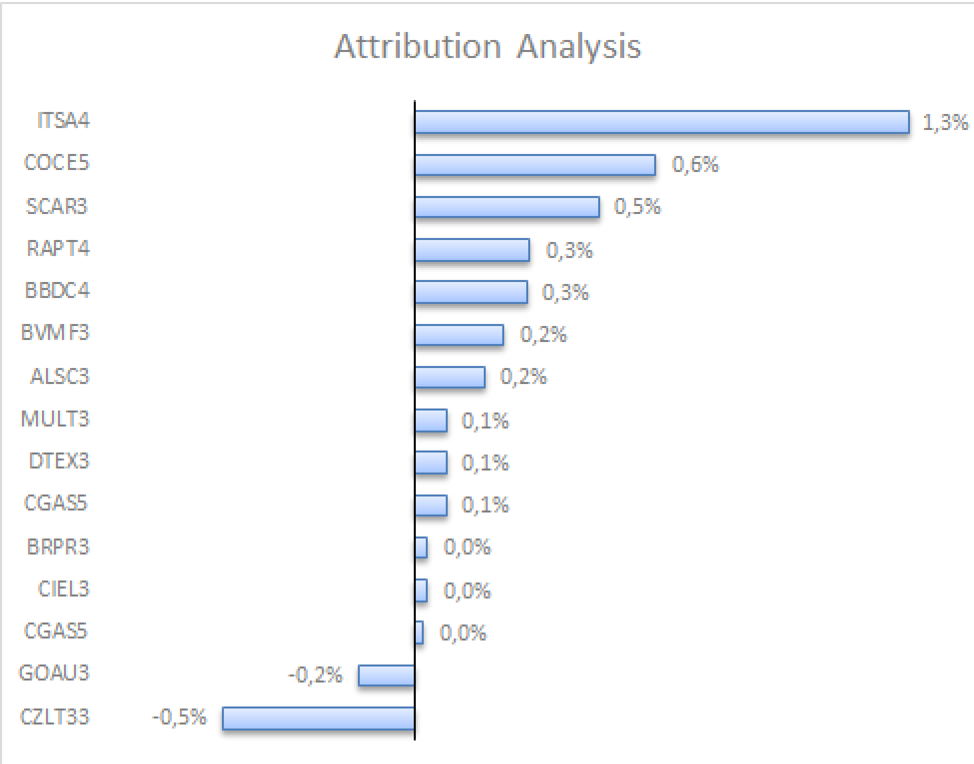
Av. das Américas 8445, Sala 606
Barra da Tijuca – Rio de Janeiro – RJ
Tel.: 21.2421.4262

Quarterly Activity

Performance Attribution

Amid the portfolio investments, the positive highlights were Itaúsa PN, Coelce PNA and São Carlos ON. The negative highlights were Metalúrgica Gerdau ON and Cosan Limited BDR.

The chart below details the contribution of each stock to the fund's quarterly performance.



Av. das Américas 8445, Sala 606
Barra da Tijuca – Rio de Janeiro – RJ
Tel.: 21.2421.4262

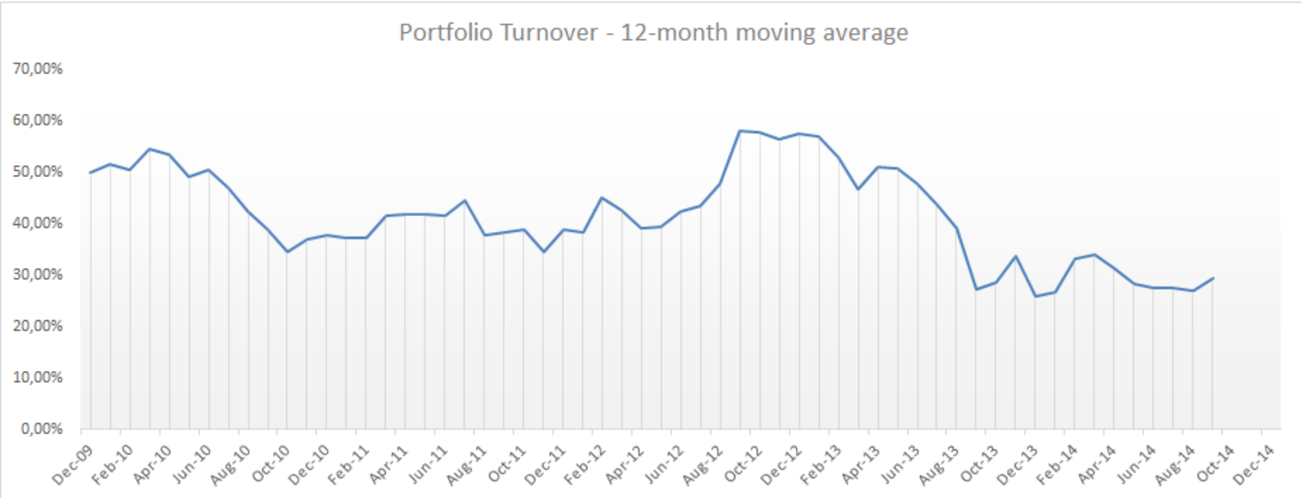
Industry Allocation and Turnover

The charts below show the historical allocation per industry and the turnover of the fund's portfolio.

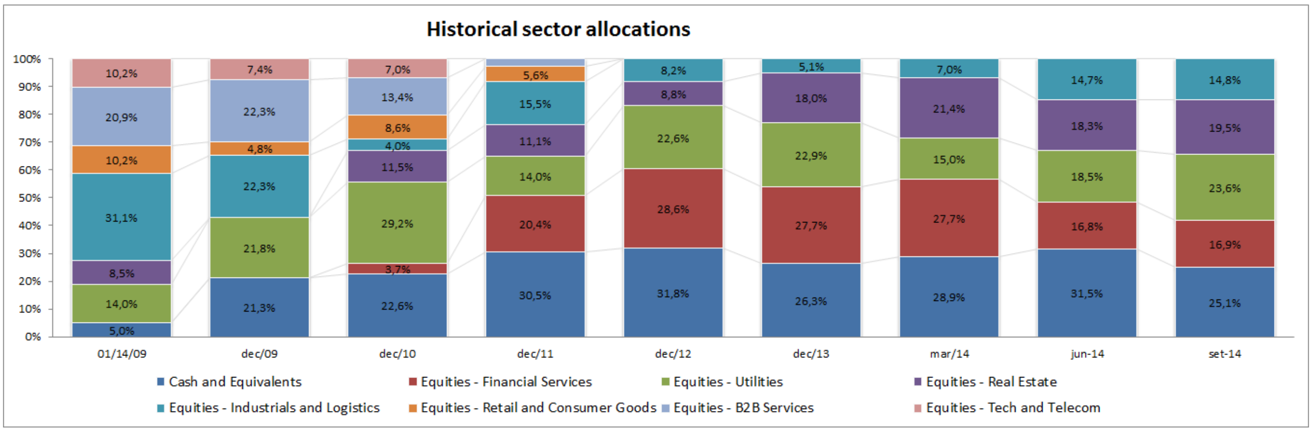
As one might expect, our way of investing results in a lower turnover compared to that of other stock funds.

We believe that the fund's return will be composed mainly by the cash generation of the companies in the portfolio, which is reinvested in the business or paid as dividends. The gains attributable to shorter-term investments, where the difference between the entry and exit multiples is determinant, should represent a small percentage of the total return and of the fund's portfolio.

Our turnover tends to vary according to the volatility of the stocks that we track, as we use market swings to raise or reduce positions at attractive prices.



* Measured as the quotient between total stock sales in the past 12 months and the average NAV of the fund.



* The percentages above are measured based on the NAV of the fund at the end of the period.

Av. das Américas 8445, Sala 606
Barra da Tijuca – Rio de Janeiro – RJ
Tel.: 21.2421.4262

Portfolio

The table below presents the breakdown of our stock portfolio, based on the criteria used internally for industry classification.

	Nov/14
Cash and Equivalents	19,4%
Banks and Financial Services	20,3%
Utilities and Energy	23,8%
Real Estate	19,4%
Industrials, Commoditeis and Logistics	14,0%

* The percentages above are measured based on the NAV of the fund at the end of the period.

Financial Services

Within this category, we invest in four companies: Itaúsa, BM&FBovespa, Cielo and Bradesco. In general terms, all these holdings feature solid competitive positions, relevant market share and profitable growth opportunities.

In September, we acquired 3% of the fund's portfolio in Cielo, at prices from R$37.14 through R$39.91.

In this quarter, there was a momentary drop in the company's stock, explained by the issuance of the Central Bank's *circular* 3.271[3], which standardizes the receivables agenda of payment cards, and by the news about the end of exclusivity of small brands, such as Hiper and Elo.

We believe that, despite these measures – and the greater commitment by the Central Bank to promote competition – the industry's economics remains favorable, very similar to that about which we commented in our Management Report for the 4Q 2010[4], when we invested in Redecard.

On November 19, Cielo announced the investment of R$8.1bn in the creation of a joint venture (70%/30%) with Banco do Brasil, whose main activity will be the management of accounts as well as the management and security control of payments throughout Visa, MasterCard, American Express and Elo cards issued by Banco do Brasil. In exchange for its services, the JV will receive "interchange fee" in its entirety for the transactions carried out by these cards.

Strategically speaking, the transaction seemed interesting because Cielo raises its scope in the value chain, starting to receive almost the entirety of the revenue (Net MDR + Interchange Fee) in transactions with Ourocard cards, in a payment model never before seen worldwide.

[3] http://www.bcb.gov.br/pt-br/Paginas/bc-determina-padronizacao-da-agenda-de-recebiveis-dos-cartoes-de-pagamento.aspx (IN PORTUGUESE)

[4] http://edgeinvestimentos.com.br/wp-content/uploads/2013/04/Edge_RelatorioGestao4tri2010.pdf (IN PORTUGUESE)

Av. das Américas 8445, Sala 606
Barra da Tijuca – Rio de Janeiro – RJ
Tel.: 21.2421.4262

Utilities and Energy

Our utilities are Coelce and Comgás, which account for 13% and 10% of the fund, respectively.

We bought more Coelce stock in the past six months, as its market value seems distant from our intrinsic value estimate. One of the possible explanations for the low valuation is the large difference between the regulatory results and the accounting results, caused by the accumulation of CVA's[5] and by the financial component of the return of excess revenues stemming from a delay in the 2011 tariff review. For the agents who are not taking these adjustments into account, the 2015 results will surprise positively.

****

On November 11, Cosan announced the realization of studies to segregate its stake in Comgás, through a new company called Distribuição de Gás Participações (DGP), which will be listed on Bovespa's Novo Mercado. This new company will allow the acquisition of stakes in other natural gas distributors, similar to what Equatorial, controller of CEMAR and CELPA, has done.

In addition, Cosan mentioned an interest to migrate the shareholder base of Comgás to the controlling company, but hasn't yet informed us the conditions of the transaction. We consider it ideal that the migration occurs before the realization of any acquisitions by DGP, in order to avoid discussions about the fair value of the assets to be merged. The spin-off and migration are slated for the first quarter of 2015.

Thank you for your trust,

Management Team of Edge Investimentos

[5] CVA, created by Provisional Measure 2,227/01 and instituted by the Interministerial Ordinance no. 25/02, registers the variation, between the annual tariff readjustments, of part of the cost items at the distributors, such as the acquisition of electric energy from the Itaipu power plant and some tariff charges from the utilities industry.