

MANAGEMENT REPORT

2nd Half 2015



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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.

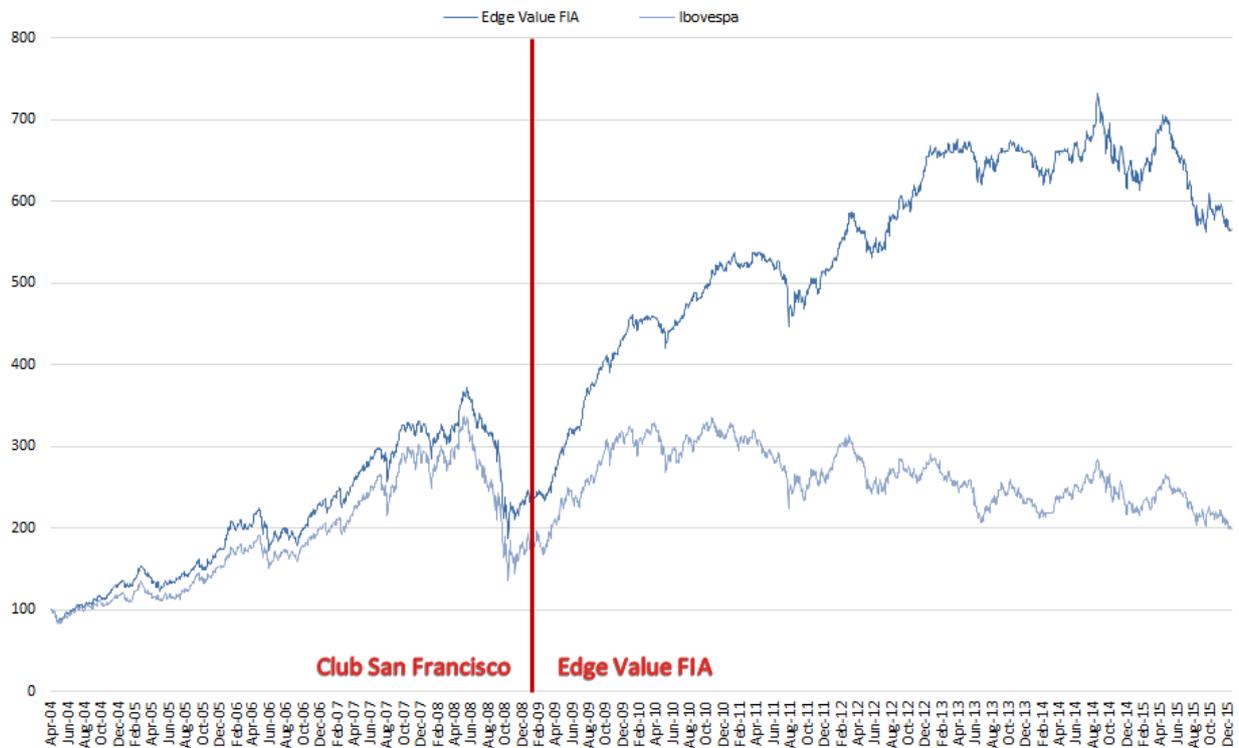
The charts below present the return on the fund and the performance of a simulated investment of R\$1,000.00 made at the opening of Clube San Francisco, the vehicle that originated Edge Value FIA. In both cases, we compare our performance with those of the CDI and Ibovespa.

Period	Return (%)			Performance of a simulated investment of R\$ 1,000.00			
	Edge Value	IBOV	CDI	Edge Value	IBOV	CDI	
2015	-13.10%	-13.31%	13.23%	R\$ 5,651	R\$ 1,991	R\$ 3,786	
2014	-1.7%	-2.9%	10.8%	R\$ 6,502	R\$ 2,514	R\$ 3,344	
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
	2007	40.3%	43.7%	11.8%	R\$ 3,269	R\$ 3,212	R\$ 1,704
	2006	33.1%	33.7%	15.0%	R\$ 2,330	R\$ 2,235	R\$ 1,524
	2005	29.2%	27.1%	19.0%	R\$ 1,750	R\$ 1,671	R\$ 1,325
	2004*	35.4%	31.5%	11.3%	R\$ 1,354	R\$ 1,315	R\$ 1,113
Since inception	465.1%	99.1%	278.6%				
Annualized return	15.4%	5.8%	11.6%				

*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.

Performance Details

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



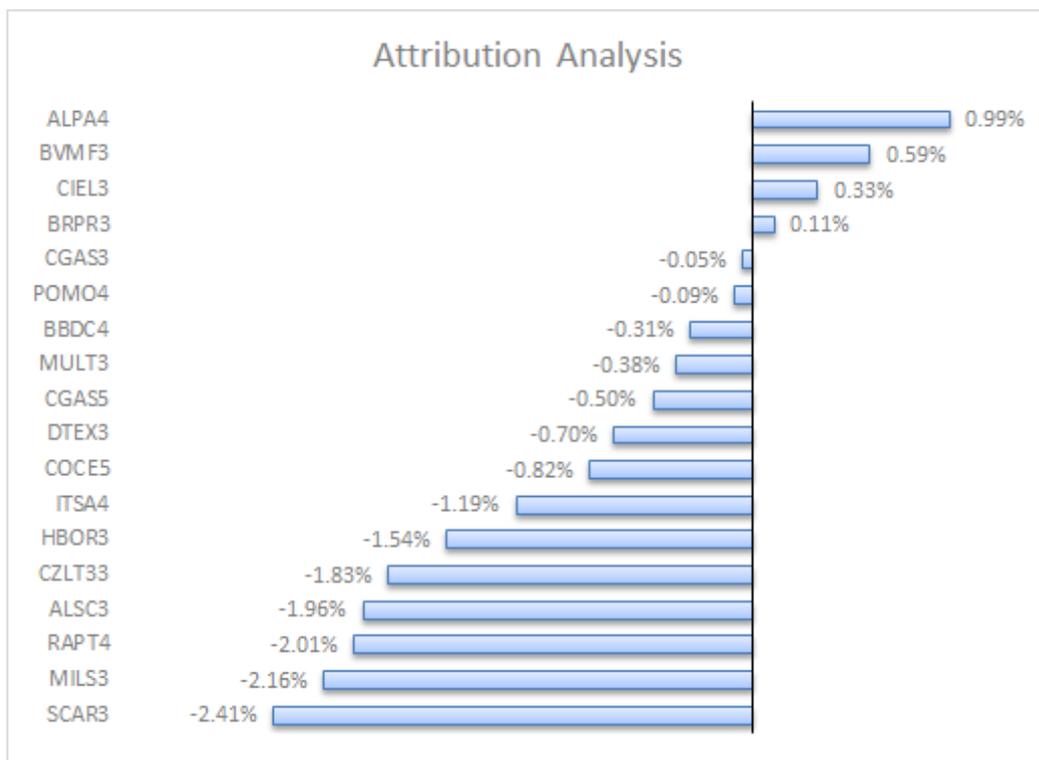
2015	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Full Year
Edge	-5.73%	6.46%	1.56%	4.94%	-4.30%	-2.14%	-3.92%	-7.26%	-1.69%	1.67%	-0.71%	-1.88%	-13.10%
Ibov	-6.20%	9.97%	-0.84%	9.93%	-6.17%	0.61%	-4.17%	-8.33%	-3.36%	1.80%	-1.63%	-3.93%	-13.31%
2014	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Full Year
Edge	-3.56%	0.19%	2.02%	1.40%	-2.16%	1.28%	3.08%	6.56%	-6.16%	-0.92%	-0.33%	-2.52%	-1.71%
Ibov	-7.51%	-1.14%	7.05%	2.40%	-0.75%	3.76%	5.00%	9.78%	-11.70%	0.95%	0.07%	-8.62%	-2.91%
2013	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Full Year
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%

Quarterly Activity

Performance Attribution

Amid the portfolio investments, the positive highlights were Alpargatas PN, BM&F Bovespa ON and Cielo ON. The main negative highlights were São Carlos ON, Mills ON and Randon ON.

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



Industry Allocation and Turnover

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

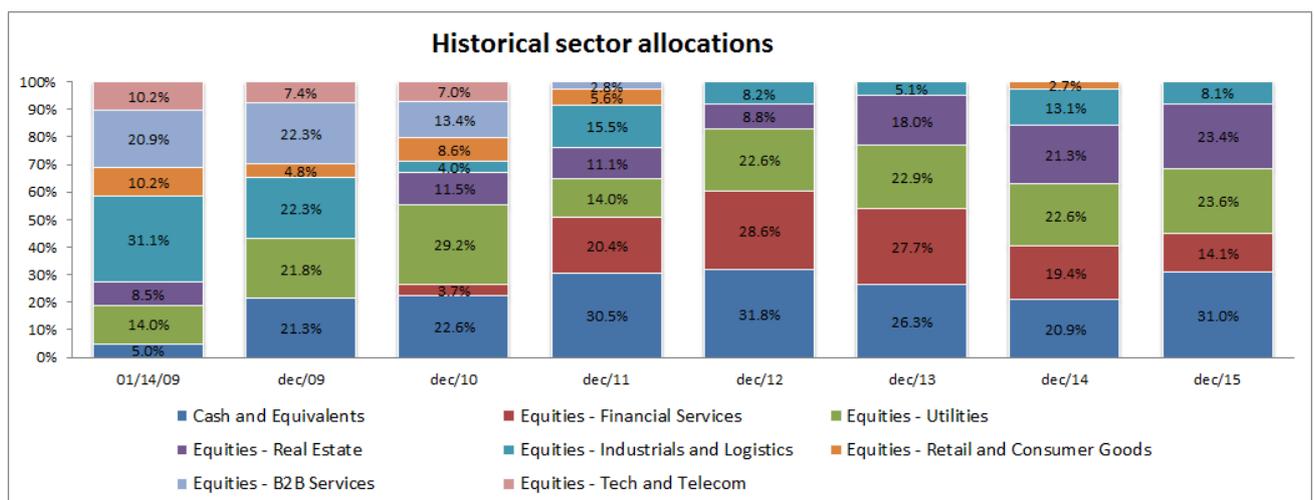
As one might expect, our way of investing results in a lower turnover compared to that of other stock funds.

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.

Comments by the fund manager

Introduction

In 2015, the variation in the fund's share price was -13.10%, compared to a drop of -13.86% for the Ibovespa. In the last three years, the share price for Edge Value FIA devalued by 14.4% while the Ibovespa index lost 28.9% of its value.

The fund's returns in these three years, even though significantly above the reference index, are disappointing: it represents a nominal decrease and is even worse when compared to the CDI (or Selic, the benchmark short-term fixed income rate).

In retrospect, this loss of value was, in large extent, caused by macroeconomic factors, many of which mentioned in previous letters: a rise in the cost of capital, a rise in taxation (both realized and forthcoming), a fall in general growth expectations etc. Specific factors in portfolio companies and judgement errors also contributed to the poor performance in the period, but in much lesser scale compared to the damage done by recent economic policies.

Visibility of the future remains weak, in spite of recent stock market rises motivated by the impeachment process. Even with a new government, the fiscal challenges are immense, economic activity remains depressed and the levels of leverage in some specific (but relevant) economic sectors are quite high.

Thus, despite the improvement in sentiment and in the flow of funds, the fundamentals remain weak.

The question, therefore, is: how do we conduct our investments in a way that avoids fragilities in the diverse future scenarios and, in the long term, brings absolute returns that exceed our theoretical cost of capital?

One brief aside: Developing and implementing a personal/family investment policy should be done in the level of asset allocation for each client. It is extremely recommended (and prudent) to adopt sufficient diversification between asset classes, currencies and geographies. In our conversations with Brazilian HNWI it is very common to find a strong home bias, and most (or all) of one's assets is allocated in the Brazilian market, with local custody and in Reais. This investor is therefore exposed to unnecessary and potentially diversifiable risks. It is not the scope of this report, however, to further the discussion of the benefits of adequate asset allocation, especially because optimal allocation varies according to each investor's characteristics, such as risk aversion, investment horizon, expected needs for the resources etc.

That said, as conservative investors it has always seemed prudent to – respecting the regulatory limits for the local equity fund (at least 2/3 of the assets invested in stocks) – keep the flexibility to invest, in the absence of good stock ideas, part of the assets in government bonds with variable rates. Accordingly and effectively, in the last four years we have been carrying a cash position that has oscillated between 20% and 33% – a course of action that has been correct, yet insufficient to offset the fall in our *long equities* core.

In 2016, with the intention to add to our portfolio management flexibility (while keeping Brazilian stocks as our main risk factor), we proposed and implemented a change in the fund's bylaws that allows (1) investments of up to 10% of the fund in foreign stocks and (2) the use of derivatives for hedging purposes. These changes, while subtle, have the potential to improve the risk-return proposition of the fund.

The search for quality assets abroad improves the portfolio's "total quality", before even discussing the benefits of geographic and currency diversification. We expect, over time, to gradually add superb foreign companies to the portfolio, up to the limit of 10% of assets. These investments will be restricted to geographies with lower regulatory/governance risk than that of Brazil (e.g. USA and UK) and, as always, will be subject to the same rigorous fundamentalist, value-oriented, multi-stage and team-based investment analysis process.

Regarding the use of derivatives, options positions will always be covered by existing stock positions or within collar strategies, in order to avoid exposing the fund to asymmetrical or unlimited risks. In the date of this writing, the sum of all option premiums is around 1% of assets.

Portfolio Update

Comgás – Extraordinary Dividend

In our report for the 1st Quarter of 2012, when Cosan acquired a controlling stake in Comgás, we wrote the following comments about the company:

"1) We believe that, with the exception of some cost adjustments, the daily routine of the company will not suffer significant alterations. Since its privatization in 1999, Comgás has developed robust technical and management bodies, which have managed the company efficiently and, therefore, should be maintained.

2) Shell, a minority member of the control block of Comgás, will remain as a direct shareholder of the company for at least three years, with the possibility of converting its stake into Cosan shares from that date on. In our opinion, the fact that Shell did not exercise its tag along rights as established in the shareholders' agreement (i) indicates that the price of the transaction somewhat undervalues Comgás and (ii) significantly reduces the risks and uncertainties associated with the arrival of a new controlling company.

3) It is probable that the dividend policy will be maintained given that Cosan will use the cash flow from Comgás to pay for the financing of the acquisition, which exceeds R\$ 3 billion. With this, the dividend yield should be close to 8% per year."

From the acquisition by Cosan up until 2015, we can say that points 1 and 2 above were proven correct (in the case of management quality, we can say we were positively surprised). However, since the announcement made in the 3rd Quarter of 2014, by Cosan, of its creation of Distribuidora de Gás Participações ("DGP"), a holding company to consolidate current and future natural gas assets owned by Cosan, point 3 became less certain. Cosan proposed that one day Comgás shareholders would be migrated to DGP, which would be listed in Bovespa's Novo Mercado segment – in theory, an improvement regarding Comgás' ON and PN structure.

One of the ideas involved issuing debt at DGP to help pay down debt at Cosan, and incorporating Comgás into this new company with more adequate leverage given Comgás' utility profile. However, since this new holding company had the declared purpose to serve as a consolidation vehicle for diverse assets related to natural gas, there was also doubt regarding the timing of this incorporation of Comgás. As we wrote in our 3rd Quarter

and 4th Quarter 2014 report, “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.” Even though our research gave us reasons to attribute a low probability to the case of a transaction that would harm Comgás minority shareholders, and in spite of positive implications of a migration to the Novo Mercado segment, it was undeniably a factor that caused some discomfort in the market. In fact, when we presented our investment thesis on Comgás in the Forum Value Investing Brasil (August 2015, in São Paulo), there were, as we expected, questions about this aspect.

In February 18th 2016, Comgás announced an extraordinary dividend of R\$ 1.2 billion, corresponding to a gross value per ON share of R\$ 9.47186 and R\$ 10.41905 per PN share (the most liquid). The value was paid on February 26th. The PN share traded at around R\$ 40 at the time.

The company declared such dividends based on a special balance sheet calculated on November 30th, 2015, but using the year-end numbers in the company’s audited 4th Quarter filings we can see the following:

- Total debt of R\$ 3.16 billion;
- Cash and cash equivalents of R\$ 1.97 billion;
- Net debt of R\$ 1.19 billion.

Had the R\$ 1.2 billion special dividends been paid on December 31st, 2015, net debt would amount to approximately R\$ 2.4 billion – around 1.6x 2015 normalized EBITDA.

Cosan received (before taxes) approximately R\$ 725 million for its total stake.

The extraordinary dividend, as well as Mitsui’s acquisition of 49% of Gaspetro¹ (legal *imbroglia* notwithstanding), have increased – marginally, because our concern was never high – our comfort in being minority shareholders in Comgás. It also lends credence to the hypothesis that Comgás will be used as a source of stable cash flows to Cosan, via dividends.

Comgás represents 12% of Edge Value FIA.

Thank you for your trust,

Management Team of Edge Investimentos

¹ [This S&P Platts article](#) reports on the deal. Gaspetro is a subsidiary of Petrobras.