

## 1Q10 Earnings Results - Conference Call May 4th, 2010

**Operator:** Good morning ladies and gentlemen, welcome to Tarpon Investimentos 1<sup>st</sup> Quarter 2010 Earnings Results conference call. Thank you for standing by. Today's live webcast and presentation may be accessed through Tarpon's website at [www.ccall.com.br/tarpon](http://www.ccall.com.br/tarpon).

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the company's presentation. After Tarpon's remarks there will be a Question & Answer session. At that time further instructions will be given. Should any participant need assistance during this call please press star zero (\*0) to reach the operator.

Before proceeding let me mention that this presentation may contain forward-looking statements which are based on the beliefs and assumptions of Tarpon's Management and on information currently available to the Company. They involve risks and uncertainties and actual results may differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Pedro Faria, Tarpon's Investment Executive Office, who will be replacing Mr. Eduardo Mufarej on this call. Please sir, you may now begin.

**Mr. Pedro Faria:** Good morning and thanks for participating in this call. Unfortunately my partner Eduardo will not attend the call due to a conflicting appointment on his agenda. I sincerely hope to be able to provide you an equally good perspective on our business and results.

Before going to our results I would like to share our views on the market, which were remarkably more challenging during this quarter. Historically these are the moments in which Tarpon, as a value-oriented bottom-up manager, performs at its best, as our fund returns will attest.

On the portfolio side, we recently concluded the divestment from our first private equity deal, BrasilAgro. We also announced to the public our stake of 5% in BR-Foods, which is our largest investment ever with over R\$ 1 billion invested today.

Last but not least, we are very happy to share with you that Mr. Cláudio Galeazzi previously the CEO of Pão de Açúcar - one of our most successful investments in the past - has agreed to join Tarpon's Board of Directors. We truly believe Claudio will provide valuable experience in our increasing effort to participate more effectively in the day to day of our companies.

Now let us move ahead to Tarpon's 1Q10 financial results. On page 3 you find the quarter highlights. The AUM amounted to R\$4.7 billion as of March 31<sup>st</sup>, a 20% increase when compared to 4Q09 and more than double last year's 1Q. The returns of the Tarpon funds, our key business driver, with superior performance in the quarter, contributed to an increase of nearly R\$270 million in Tarpon's AUM.

In January we launched a new co-investment fund that will allow investments in selected opportunities alongside our current strategies. This new fund will permit us to grow our asset base and to capture the best opportunities without diluting the current strategy's performance, which is very welcome development for the firm. After new commitments we reached R\$641 million in the quarter, mostly dedicated to this new co-investment fund which I will detail to you later.

This fundraising effort came mostly from our partnership entered with TIG Holding and AIMCO - Alberta Investment Management Company, one of Canada's largest institutional investment fund manager.

Moving to page 4 you will see that our efforts to build a diversified investor base comprised by high-caliber institutional investors continues to pay dividends to the firm. As of this quarter, 74% of our asset base came from endowments foundations, sovereign wealth funds and proprietary capital.

On page 5 you will see our assets under management growth. We reported an increase of 112% from 1Q09. As you can see on the chart on the bottom of the page, virtually all of this AUM growth came from the launching of the Tarpon Special Opportunities Fund and also from the strong performance posted in the quarter.

As we said in the last slide, on page 6 you will see that the fundraising efforts concentrated towards this new co-investment vehicle. As we have been saying in the past, our challenge going forward is not to let the growth of our asset base dilute the potential returns of the existing strategies, so devising with the partnership with Alberta Management Company this new co-investment strategy is a very welcome development that will allow us to grow our assets and to target specific opportunities without diluting existing strategies.

Jumping to page 8 you see the breakdown of our AUM by investment strategy and mandates. Today private equity exposure represents 15% of our AUM. 85% of the AUM is on public and listed securities.

Let us move to page 9, where we present Tarpon's key business driver, the fund's performance. During the quarter our long-only equity strategy pursued by Fundo Tarpon and Tarpon Fund posted net returns of 8.1% in reais and 5.5% in dollar terms, respectively. Our hybrid equity strategy pursued by the Tarpon All Equity Fund posted net returns of 5.8%. As our mandate is to deliver absolute and uncorrelated returns, we do not follow any specific stock market index; but just for illustrative purposes, Ibovespa was basically up 2.6% in the quarter and flat in dollar terms.

Now let us move ahead to talk about Tarpon's financial highlights. On page 10 we present the operating revenues related to management and performance fees. The management fees are charged on the funds on a monthly or quarterly basis over the amount of called capital.

During 1Q10 revenues related to management fees amounted to R\$12.8 million. When compared to 1Q09 the amount earned in 1Q10 represented an increase of 413%. This huge increase year over year is explained by: number one, the increase of Tarpon Fund's average AUM base, which we said is up 112% since last year's 1Q; but also the corporate restructuring involving the Company that occurred in March 2009.

The amount earned in the 1Q was equivalent of 43% of the overall amount of management fees collected in the first year 2009. Regarding performance fees revenues, these fees are collected based on the performance of the funds when a certain hurdle rate is surpassed. It is important to highlight that the fund investors are charged on its remuneration on distinct dates of the year, depending on the characteristics of the funds and vehicles.

During the quarter performance fee revenues amounted to R\$56.6 million and were exclusively originated from the long-only and the hybrid-equity strategies. During the fiscal year 2009, the total amount collected was only R\$13.2 million when the majority of the fund's net asset value were underneath the high watermark. We are happy to inform that as of March 2010, 100% of our AUM is above the respective high watermarks. During 1Q09 Tarpon did not record any revenues related to performance fees.

On the bottom-right hand side of the page we indicate for your analysis what would have been the performance fee potential of the funds if we were to crystallize all performance fees in the quarter: we would have accumulated an extra amount of performance fees to the tune of R\$61.2 million. This amount is based on the net asset of the funds that were above high watermark as of March 31, but not yet entitled to collect performance fees.

Now moving to page 11 total operating revenues amounted to R\$69.4 million, a 62% increase over the R\$49.2 million recorded for the entire year of 2009, indicating the Company's strong quarter results.

Regarding the expenses, on the top right-hand side of the page we can see the operating expenses breakdown, where recurring operating expenses, which are equivalent to 59% of our overall expenses, amounted to R\$ 2.7 million. These were mainly comprised of general administrative expenses, personnel expenses, as well as other minor income expenses related to depreciation and reimbursement from the funds.

The nonrecurring expenses, which are equivalent to 41% of our overall expenses, are mainly attributed to our stock option compensation provision and variable semiannual compensation bonus. In this period, the nonrecurring expenses were related exclusively to the stock option, as no provision for variable compensation was accounted in the period. As a result, the company's total operating expenses amounted to R\$4.6 million in the quarter, delivering a 93% margin over net revenues.

At last 1Q10 net income amounted to R\$54.1 million, which is equivalent to R\$ 1.31 per share compared with a net loss of R\$0.4 million in the same period of 2009. In the fiscal year 2009, the overall net income amounted only to R\$16 million. We booked a margin over net revenues of 82% in 1Q10, which compares to negative margin of 18% in 1Q09.

Thank you and now I would like to open for questions.

### Q&A Session

**Operator:** Thank you. Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question please press the star key followed by the one key (\*1) on your touch-tone phone. If at any time you would like to remove yourself from the questioning queue press star two (\*2).

Excuse me. Our first question comes from Mr. Jonathan Prigoff from Equinox.

**Mr. Jonathan Prigoff:** Hi, thanks for hosting the call. Two questions: one. We have seen the reports of the BrasilAgro deal. I was wondering if you could tell us what your total profit on that investment was. So we saw the amount that you exited with, but what did you have to commit to that? What was your return on that investment?

And then, secondly, if you could just comment on how fund-raising efforts are going besides the AIMCO co-investment, which is obviously a big one for you guys. What is going on in the rest of the portfolio and in terms of breaking assets with the hybrid fund? Thanks a lot.

**Mr. Faria:** Thanks Jonathan. To your first question, Brasil Agro, we originally invested in 2006, but we kept adding to the position during the years. In total we invested a little bit over R\$50 million and as the public announcement was disclosed, the total consideration for our sale was R\$131 million. When you do the calculations you will turn out to have an IRR of close to 50% during the period.

As far as the fund-raising effort, I think we are seeing perhaps one of the best environments for fund-raising which for us, as we are a performance-driven company, is why we are putting too much emphasis on the co-investment strategy, which will allow us not to dilute existing returns of the portfolio.

But the effort, apart from the Tarpon Special Opportunities Fund has been primarily on recycling capital to the existing funds and primarily to the hybrid strategy. As you know, given our strong performance some of our investors have become overweight in Tarpon's portfolio or Brazil, which means some of them we are trimming down the exposure only marginally and to that we have a welcome line of prospective investors that want to participate in Tarpon's funds. So I think it is a very positive environment for fund-raising, which does not mean we are going to take full advantage given constraints on size and capacity.

**Mr. Prigoff:** Ok and one more question: in the release you talk about the difference between fee-paying AUM and non-fee paying AUM. So besides own called capital, what other forms of AUM do you have that do not pay management fees?

**Mr. Faria:** These are primarily some co-investment structures that we had with Brasil Agro and another private equity investments like Direcional. So these are marginal to the overall AUM and these do not collect any management fees.

**Mr. Prigoff:** Do you know roughly how much those add up to?

Mr. Faria: In total?

**Mr. Prigoff:** Yes.

**Mr. Faria:** Give me one second Jonathan.

**Mr. Prigoff:** Ok.

**Mr. Faria:** I think it is stated on the earnings release. It is a little bit over R\$200 million now (on page 6 of the earnings release).

**Mr. Prigoff:** So everything that is in ... so everything that is in long-only strategy and hybrid-equity strategy here that is listed as on-called capital; those are the things that go ... I am sorry, I see ... ok all right, thank you very much.

**Mr. Faria:** Ok.

**Operator:** Excuse me. Ladies and gentlemen as a reminder, if you would like to pose a question please press star one (\*1). Once again, to pose a question please press star one (\*1).

This concludes today's question and answer session. I would like to invite Mr. Pedro Faria to proceed with his closing statements. Please sir, go ahead.

**Mr. Faria:** Well, thank you very much for everybody attending the call. I hope I was of your service - I am not used to doing those kinds of calls. What I would like to add up as our final remarks is that we welcome challenging markets in which I think true bottom-up performance becomes more selling. This has been historically a very important aspect of Tarpon's businesses. We saw in the quarter a number of very interesting achievements like the acceptance of Mr. Cláudio Galeazzi to join our Board; the partnership with Alberta Management Company; some landmark deals and divestments.

So we continue to feel good about the future. We continue to behave in very conservative stands towards the markets and as you see we hope to continue to post good results as far as not only management fees but performance fees attributed to our good funds performance. Thank you very much.

**Operator:** That does conclude the Tarpon Investimentos 1Q10 Earnings Results conference call. Thank you very much for your participation and have a good day.

\* \* \* \* \*

## Contact

### Tarpon Investimentos S.A.

www.tarponinvest.com

Email: [ir@tarponinvest.com.br](mailto:ir@tarponinvest.com.br)

Phone: +55 (11) 3074 5800

Eduardo Mufarej  
*IR Officer*

Marina Barretto  
*IR Analyst*

## Disclaimer

This document may contain forward-looking statements. Such forward-looking statements are and will be subject to many risks and uncertainties relating to factors that are beyond the Company's ability to control or estimate precisely, such as future market conditions, competitive environment, currency and inflation fluctuations, changes in governmental and regulatory policies and other factors relating to the operations of the Company, which may cause actual future results of the Company to differ materially from those expressed or implied in such forward-looking statements.

You are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this document. Such forward-looking statements shall not be construed as guarantee of future performance. The Company does not undertake to publicly review or update these forward-looking statements in view of events or circumstances occurring after the date of this document.

This document does not constitute an offer, or invitation, or solicitation of an offer, to subscribe for or purchase any securities.