Newsletter 2020

Seeing beyond the headlines in Brazil

AUTONOMY
INVESTIMENTOS

Index

2019 highlights

As we gear up to a promising year, we are pleased to highlight some of Autonomy Investimentos' key accomplishments in 2019 as we believe they pave the way to a substantial expansion in the investment opportunities ahead.

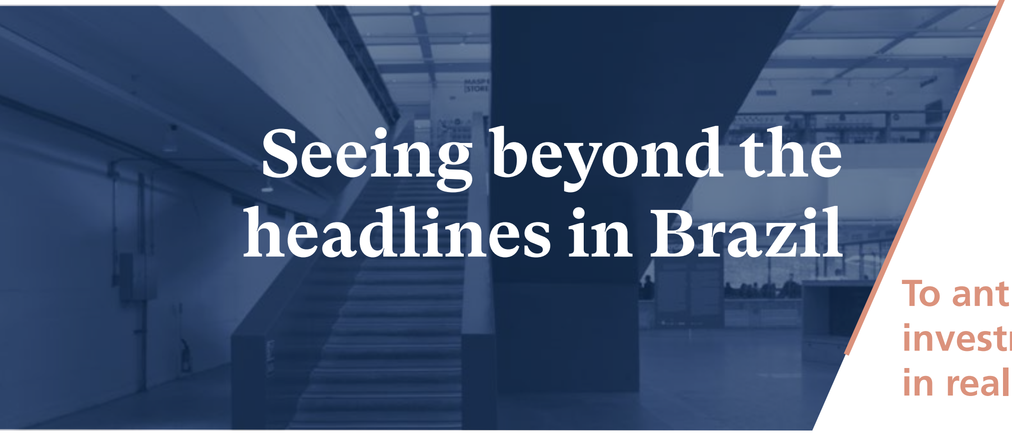
Last year, Autonomy committed to invest over R$ 670 million, of which R$ 525 million in equity and R$ 145 million in accretive debt, expanding its logistics footprint from the southeast of Brazil into central and northeast regions as well. The year was also marked by the acquisition of an 1887 historical asset comprised of four buildings in front of the harbor pier, forming a prominent property in the landscape and history of Rio de Janeiro, known as Moinho Fluminense.

Autonomy investment thesis to reposition Moinho Fluminense into an iconic landmark in a world-famous city, captures all intrinsic elements of our investment purpose of creating cities more valuable to live and invest in.

We have divested R$ 286 million worth of matured assets and cumulative distributed R$ 1.2 billion (US$ 447 million) of equity back to our investors, reaching the mark of having returned 100% of the capital invested in our Fund I in US Dollars.

Towards the year end, we added R$ 750 million of additional capital commitments from our partner Cadillac Fairview to our Golgi Logistics platform, in preparation to execute on a strong pipeline of opportunities in industrials in Brazil.

Lastly, we are proud to have made significant advances in our governance, human capital and culture. While we welcomed the arrival of new senior team members, sharpening our competitive edge, we also concluded our brand book resuming the essence of Autonomy's way of being.



Seeing beyond the headlines in Brazil

To anticipate compeling investment opportunities in real estate

The Autonomy team believes there is an attractive opportunity for investing in the Brazilian real estate market as some compelling conditions for long-term investments in the asset class are presented. These conditions are not the product of a handful of years but, instead, the result of a long maturing process of the country's development, built over decades of its history.

Brazil, the world's ninth largest economy[1] ($ 1.9 trillion GDP in 2018)[2] and sixth most populous country (approximately 210 million inhabitants)[3], is characterized by large and well-developed agricultural, mining, manufacturing and service sectors, and a substantial middle class. The country vibrant domestic market (approximately 2/3 of the GDP deriving from its internal consumption)[4] requires an extensive and expanding network of transportation and logistics, tourism facilities, telecommunications, retail and wholesale commerce, real estate assets, financial services, social security, education and health care.

In Autonomy's opinion, the positive outlook for Brazil results from the combination of a favorable position in the economic cycle, post the longest recession of its history with a sharp adjustment in asset prices, a sharp depreciation in the exchange rate and limited capital for new investments in the past four years.

The country momentum coupled with unique macroeconomic conditions, which are the result of a strong country effort over the past years, namely (each to be discussed further),

1/ Inflation under control (p.06)

2/ Real interest rates at sustainable, lower than historical, levels (p.06)

3/ A long path of improving regulations and policies (p.07)

4/ Shift to fiscally responsible, liberal administration (p.08)

5/ Cyclical economic recovery (p.09)

6/ Neutral to favorable currency entry point (p.10)

created an attractive opportunity for investments in real estate: compressed asset prices, low levels of new real estate stock, healthy economy and favorable growth perspectives.

1. Published by the world bank https://databank.worldbank.org/data/download/GDP.pdf

2. Brazilian GDP in 2018: R$ 6.9 trillion in 2018, published by Brazil's Bureau of Statistics IBGE (Insituto Brasileiro de Geografia e Estatística) at https://www.ibge.gov.br/explica/pib.php and, US$ 1.87 trillion published by the World Bank at https://data.worldbank.org/country/brazil

3. Brazilian population as of January 2020, published by Brazil's Bureau of Statistics IBGE https://www.ibge.gov.br/apps/populacao/ projecao/box_popclock.php

4. Carta de Conjuntura # 41 of the 4Q18 from IPEA Institute of Applied Economic Research at http://www.ipea.gov.br/cartadeconjuntura/wp-content/uploads/2018/11/CC41_Atividade-PIB.pdf

Brazil

historical backdrop

The Brazilian democracy was consolidated after the election of its first president through a popular vote in 1985, followed by the reform of its constitution "reforma constituinte" in 1988 and the strengthening of its institutions over the past 35 years. In 1994, the Real Economic Plan de-indexed the Brazilian economy, allowing in 1999 the country to adopt the inflation targeting program[5].

The fiscal responsibility law in 2000 allowed the establishment of targets for public revenues and expenses, created mechanisms to prevent and correct deviations from government accounts, as well as increased the transparency and compliance of the entire Brazilian fiscal process. As a consequence, the Brazilian government fiscal discipline which crossed different administrations, culminated in the first quarter of 2008 when Brazil was granted investment grade status, placing the country on the capital attraction route of major world economies.

Coincidentally, in 2008, the US housing crisis pushed the United States and other major developed economies into recession. Brazil, where domestic consumption is one of the major engines of economic growth, responded to this global recession with consumer driven emergency policies that, on a first moment, significantly reduced the impacts of the global crisis in the country. However, the extension of the program beyond 2011 led to double digit inflation in 2015, increasing budget deficits, a sharp currency depreciation and, eventually, a sharp rise in short-term interest rates (see Graph1 in appendix).

Additionally, the car wash operation, one of the largest white-collar crime investigation processes in the history of the country and the world, tested the country's democracy, institutions and population. Impeachment proceedings against Ms. Dilma Rousseff, the first Brazilian female President, for having allegedly breached Brazil's fiscal responsibility legislation, were concluded on August 31, 2016.

Among numerous collateral effects such as the depreciation of Brazilian goods and assets, the fall in the average income of the population, the high level of unemployment, the high idle capacity of the industry, the economic crisis has also brought inflation down to unprecedented levels. This conjecture, coupled with Vice-President Mr. Michel Temer economic stabilization program and its major reforms of 2017-18, which continued with the approval of the pension reform in 2019, opened the way for an unprecedented fall in the country's real interest rate since the mid-1990s stabilization program (see Graph 2 in appendix).

Autonomy believes that such combination of factors creates an unprecedent effect on the local real estate market, where only a few experienced and well positioned local real estate players are positioned to execute upon.

5. Autonomy Investimentos analysis.

About Autonomy Investimentos

Autonomy Investimentos is a leading real estate investment firm based in Sao Paulo, Brazil. Founded in 2007, Autonomy is composed by a talented local team with over 200 years of combined experience in the acquisition, development and or retrofit, product design, engineering and construction, leasing, management and marketing of real estate properties intended for capital appreciation and long-term income.

Over time Autonomy has developed long standing relationships with global institutional investors (public and private pension funds, family offices, fund funds, wealth managers and high-income individuals) including a joint venture with the Canadian public pension fund Ontario Teachers / Cadillac Fairview in logistics since 2012.

With a focus on the domestic real estate market, Autonomy is a world-class manager of excellence recognized for investing third-party funds in the real estate private equity class, accumulating approximately USD 1.5 billion under management covering a portfolio of 20 commercial and logistical developments, plus 60 high quality tenants and 1.9 million square meters of developed or potential development leasable area[6].

Autonomy's since inception track record of 15% net IRR[7] is attributed to the combination of a deep understanding of economic cycles with an experienced, hands-on and control-oriented investment approach in the real estate market.

Autonomy Investimentos
autonomyinvestimentos.com.br

Andre Dias
adias@autonomyinvestimentos.com.br

Carlos Mateos
cmateos@autonomyinvestimentos.com.br

Investor Relations
ir@autonomyinvestimentos.com.br

Important notice

6. As of December 2019.

7. Note: Past performance is not necessarily indicative of future results, and there can be no assurance that Autonomy will be able to achieve comparable results, implement its investment strategy or achieve its investment objective. AI RE Fund I valuation data as of September 30, 2019, with exchange rate of R$4,1644/USD, published by the Brazilian Central Bank on Sept 30, 2019. Net IRR is aggregate, compounded annual internal rates of return on investments calculated based on project level cash flows after management, development and leasing fees. Please see important notice at the end of this report.

Appendix

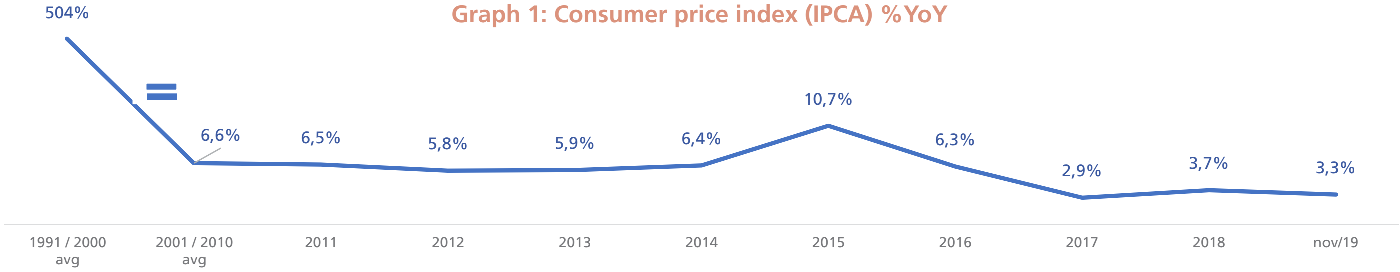
1.Inflation under control.

The 12-month accumulated inflation index IPCA at 3.27% per year[8] in November 2019 represented the historical low levels of the Brazilian inflation.

Yet, the last three years of inflation levels below the Brazilian Central Bank target of 4.5% per year are a result of the deepest GDP drop of the Brazilian history in 2015-16 recording -3.6% and -3.3% of negative growth respectively (see Graph 4 in appendix).

Autonomy believes the benign inflation outlook is sustained by the ample spare capacity in the industry (~30% of idle capacity in October 2019)[9] and the 12% jobless rate with over 12.5 million Brazilians unemployed in 2019 (Brazil has an economic active population of 106.3 million people)[10]. These two elements together shall provide a cushion to potential short-term inflationary pressures in addition to the Central Bank's monetary tools to control inflation.

Graph 1: Consumer price index (IPCA) % YoY

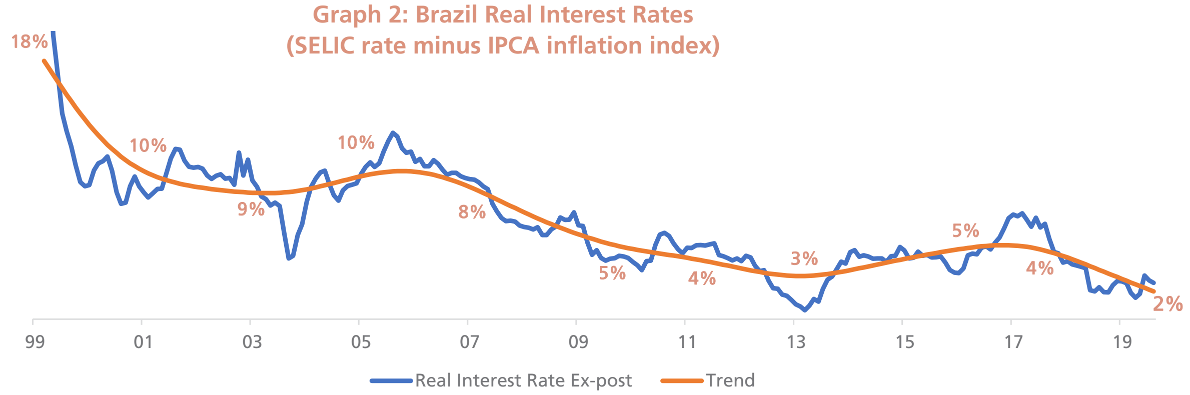


2. Real interest rates at sustainable, lower than historical, levels.

Brazilian real interest rates, obtained from the SELIC[11] (interest rate) minus the IPCA[12] (inflation index) on a given month, marked an implicit trend of 2% in November 2019 representing the lowest levels of real interest rate in the history of the country. While such trend represents a remarkable data point, it's the multi-decade path of events that matters (see Table 1 in appendix).

In Autonomy's view, the combination of stabilized inflation and low real interest rates shall have a transformational effect in the country's development perspectives. In addition to driving cost of capital down, low real interest rates shall substitute subsidies from state owned banks and unlock private capital while developing further the capital and debt markets in Brazil.

Graph 2: Brazil Real Interest Rates
(SELIC rate minus IPCA inflation index)



8. As of November 30, 2019, accumulated last 12-months of the Brazilian Consumer Price Index – IPCA, published by Brazil's Bureau of Statistics IBGE (Insituto Brasileiro de Geografia e Estatística).

9. UCI – Utilização da Capacidade Instalada index from CNI – Confederação Nacional da Indústria as of October 31, 2019. Article "Utilização da capacidade da indústria sobe em outubro e é a maior desde 2014, diz CNI" https://g1.globo.com/economia/noticia/2019/11/22/utilizacao-da-capacidade-da-industria-sobe-em-outubro-e-e-a-maior-desde-2014-diz-cni.ghtml.

10. IBGE – Instituto Brasileiro de Geografia e Estatística, article "Taxa de Desemprego no Brasil cai para 11.8%, revela IBGE" of October 31, 2019, http://agenciabrasil.ebc.com.br/economia/noticia/2019-10/taxa-de-desemprego-no-brasil-cai-para-118-revela-ibge.

11. SELIC is the basic interest rate of the economy in Brazil, used in the interbank market to finance daily operations, backed by federal government securities. The acronym SELIC stands for Special Settlement and Custody System.

12. IPCA - Brazilian Consumer Price Index, considered the official inflation index of the country, is published monthly by IBGE - Brazilian Institute of Geography and Statistics. https://www.ibge.gov.br/estatisticas/economicas/precos-e-custos/9256-indice-nacional-de-precos-ao-consumidor-amplo.html

3. A long path of improving regulations and policies.

A timeline of events since the stabilization plan that took place in the mid-1990s, followed by a multi-year progress in fiscal and balance of payments fundamentals, a sizeable wave of concessions, privatizations and PPPs[13], and subsequent anti-poverty programs in the mid-2000s, through the 2017-18 transition government program centered on fiscal discipline, anti-corruption initiatives and measures to stimulate private investment, shows Brazil's multi-year path to improving regulations and policies.

Table 1: Selected regulations and policies

		EVENT	TYPE	YEAR	OUTCOME
Mid-90s	/ Macro stabilization program / Fiscal responsibility law	Real economic plan	Economic program	1994	Deindexed the economy ending the hyperinflation in the country
		National privatization council	Law 9491/97	1997	Largest privatization program of the Brazilian history
		Inflation targeting program	Economic program	1999	Centralized inflation targeting program by the Brazilian Central Bank
		Fiscal responsibility law	Law 101/00	2000	Regulatory framework towards government fiscal responsibility
Mid-00s	/ Social and anti-poverty programs / Fiscally responsible administrations	Social programs	Family Grant or "Bolsa Familia"	2002 - 2008	Successfully addressed many of the macroeconomic, social and political imbalances of the time
			Child labor eradication program		
			Water to all citizens program		
			Brazil literacy programs		
			Youth and adult education programs		
			University to all citizens "ProUni"		
			My house my life		
		Public-private partnerships	Law 11.079/04	2004	Framework for the bidding and contracting of public-private partnerships within the Union, State, Federal District and Municipalities
		Bankruptcy law	Law 11.101/05	2005	Guidelines for judicial reorganization process, extrajudicial recovery and bankruptcy
		Environmental protection policies	National climate change policy	2002 - 2008	Legal environmental framework imposing the pace for the consolidation of a model of sustainable development of the environment in Brazil
			National policy on solid waste		
			Public forests management policy		
			National water resources plan		
2008-16	/ Anti-cyclical macroeconomic strategy / Over-extension of emergency policies	PPA - multi-annual plan	Economic program	2008-11	Anti-cyclical macroeconomic strategy aimed at mitigating the collateral effects of the global slowdown
		PAC - accelerated growth plan	Economic program	2010-16	Economic growth acceleration plan focused on the development of all infrastructure segments through public incentives
		Concessions program	Economic growth	2010-16	Infrastructure related concessions of public assets to raise revenues and improve productivity
2016-18	/ Stabilization program	Micro reforms	Legislation on corporate governance	2016-18	Strengthening corporate governance in state owned enterprises
			Power		Electric utility legislation to speed up privatization or concession of public assets
			Energy		Opening up pre-salt oil fields to private investors by removing Petrobras obligation to be the area's sole operator
			Public private partnerships		Overhaul concerning concessions of public assets & programs attached to PPPs to attract private investment (domestic & foreign)
			Education		Restructuring of the educational model for Brazilian public schooling
			Labor reform		Several alterations in existing regulations aiming at eliminating outdated dispositions, reducing overhead costs, building a proper legal arrangement for outsourcing and temporary work contracts
		Macro reforms	Fiscal consolidation reform		Reducing budget earmarked expenditures at federal, state & municipal administrations by 30% up to 2023
			Fiscal consolidation reform		Limiting federal primary spending to the previous year's budget values adjusted for inflation
			Fiscal consolidation reform		Eliminating subsidized interest rates by the creation of new long-term interest rate TLP to benchmark the Brazilian national development bank credit operations
		Privatization program	Economic growth		Privatization of public assets to raise revenues and improve productivity

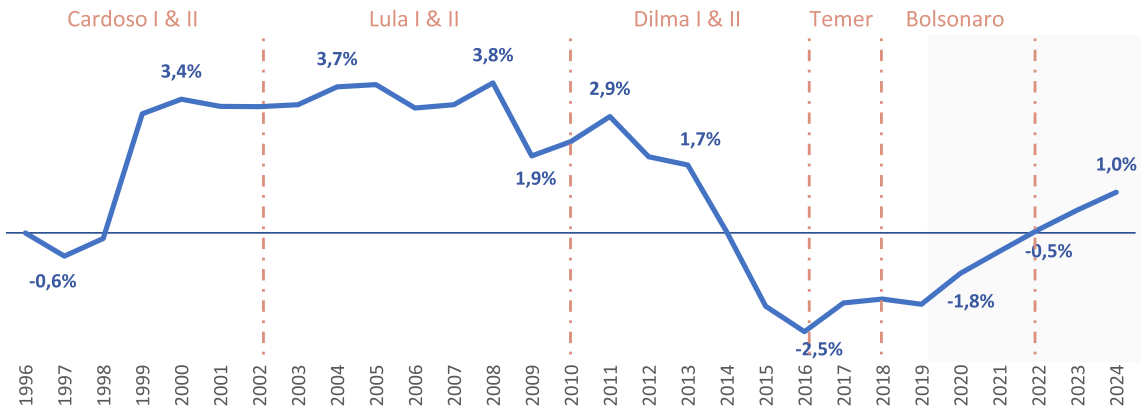
13. PPP – Public Private Partnerships.

4. Shift to fiscally responsible, liberal administration.

The Brazilian Pension Reform approved in 2019 denoted the foundation stone in the government program of rightwing President Mr. Jair Bolsonaro, elected in 2018. Indeed, the new government finance team deserves recognition for its austerity on fiscal and monetary grounds, so far. With savings estimated at R$ 800 billion in the next 10 years, the approved pension reform together with a tight fiscal agenda and the cyclical economic recovery, it's conceivable to expect a fiscally responsible administration.

In the graph 3 below, Brazil's primary net balance[14] budgeted for the 2019 – 2020 contemplated primary deficits of R$ 132 billion and R$ 119 billion respectively (projected figures in grey).

Graph 3: Brazilian Government Primary Net Balance (%of GDP)



As of December 2019, the government reviewed its primary results and projected deficit for 2019 and 2020 to be R$ 70 billion (0.9% of GDP)[15] and R$96bn (1.2% of GDP), way less than what is in the budget. Several reasons help explain these better than budgeted perspectives:

- additional revenues related to oil & gas concessions and dividend payments by state owned companies
- lower personnel expenses
- lower inflation
- lower interest rates with lower cost of servicing the debt
- gains from reviewing / auditing some of the so called "social" expenses

In Autonomy's opinion one of the most important steps for Brazil to unlock its long-term potential is to continue moving forward with its reform agenda. The table below highlights some of the major areas and reforms under way in the country:

Table 2: New round of economic reforms expected in 2020 and beyound

	EVENTT	YPEY	EARD	ETAIL & IMPACT	STATUS
2019- / Shift to fiscally responsible administration	Pension reform	Fiscal consolidation	2019	Large mandated spending cut do to successful reform, freeing up overnment funds	Passed
	Economic freedom	Economic growth	2019	Greater freedom to private individuals and companies to carry out economic activities, reducing red tape, obstacles imposed by government intervention, regulatory impact analysis	Passed
	Administrative reform	Fiscal consolidation	2020	Proposes cut mandated payroll expenses (the second largest federal overnment ex ense line 22% of total	Postponed
	Changes to the golden rule	Fiscal consolidation	2020	Proposes mechanisms for curbing mandatory expenditures, decoupling resources from funds, de-taxing government ex enditures and reviewin tax rules	Favorable
	Tax reform	Economic growth	2020	Consolidate federal and local taxes, streamline tax code, making regulation easier for businesses & improving collection	Mixed
	Privatization	Economic growth	2020	Several projects, including Electrobras & Sanitation privatization	Favorable

14. Brazilian General Government Primary Net Lending/Borrowing as a percentage of GDP, ex-interest payment, from the IMF - International Monetary Fund, World Economic Outlook Database, April 2019.

15 O Globo "Secretário do Tesouro diz que déficit do setor público em 2019 deve ficar abaixo de R$ 70 bilhões" on December 16, 2019. https://g1.globo.com/economia/noticia/2019/12/16/secretario-do-tesouro-diz-que-deficit-do-setor-publico-em-2019-deve-ficar-abaixo-dos-r-70-bilhoes.ghtml

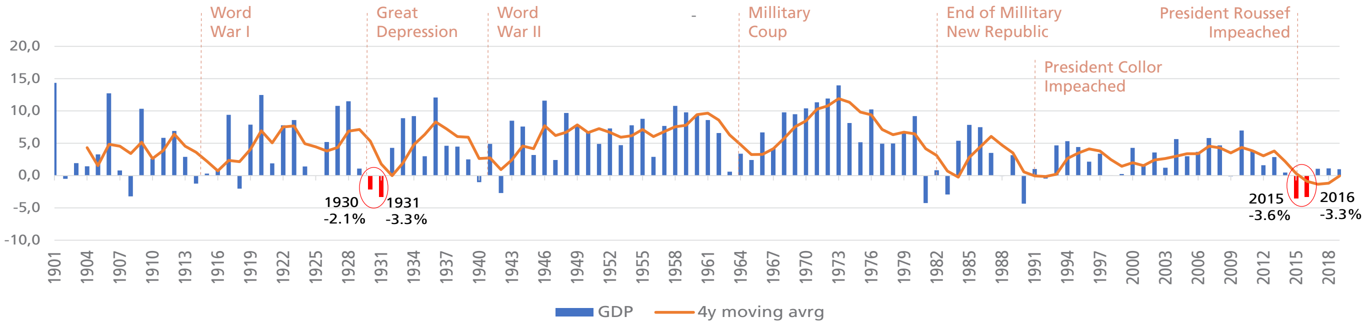
While in previous administrations Brazil exercised a what so called "democracy of coalitions", in which the political party running the executive power formed political coalitions to obtain majority in congress (the legislative lower and upper houses) to govern the country ("old politics"). From day one the current administration publicly announced his intentions of not forming a broad political coalition to support market-friendly and political-not-so-friendly needed reforms. So far, the process for the approved reforms (pension reform, economic freedom), were carried out by active congressmen who claim to understand the importance of the reforms to foster economic welfare ("new politics"). A sign of institutional evolution.

The renewal rate of congressmen in the 2018 elections in Brazil, both in the lower and upper houses, shall not go unnoticed as it registered the highest marks since the 1998 elections. Over 47% of the lower house politicians will have a first-time mandate[16]. Out of every four senators who ran for reelection in 2018, three failed to secure a seat in the upper house. Out of 54 seats open for elections in the senate in 2018[17], 46 elected senators were new in their mandate.

5. Cyclical economic recovery.

Analyzing the Brazilian GDP historical output (Graph 4), it is evident the country's great depression occurred in 2015-16, while most of the world economies rallied. Despite Brazil having a service-oriented economy (75% of GDP value added in 2018)[18] and a large corporate universe with a strong presence of Fortune 500 Cos[19], the country economy is rather closed. The amid economic performance in the following years (2017-18) is attributed the stabilization program performed by a transitioning government and a low level of confidence of the Brazilian population.

Graph 4: Brazil GDP Growth
(% yearly growth and 4-year moving average)



The 4-year moving average GDP (Graph 4) captures Brazil's cyclical economy recovery. While the recovery is based on ample spare capacity, joblessness improvement and certain macro-economic factors, local consensus projects GDP growth of 1.1% in 2019, 2.3% in 2020 and 2.5% in 2021[20].

While sustainable growth requires progress on fundamental reforms to address fiscal imbalance and lift productivity, in Autonomy's view, these are products of long-term processes of a country and, the analysis of events described herein speaks to the country's strong fundamentals and historical evolution on the right path.

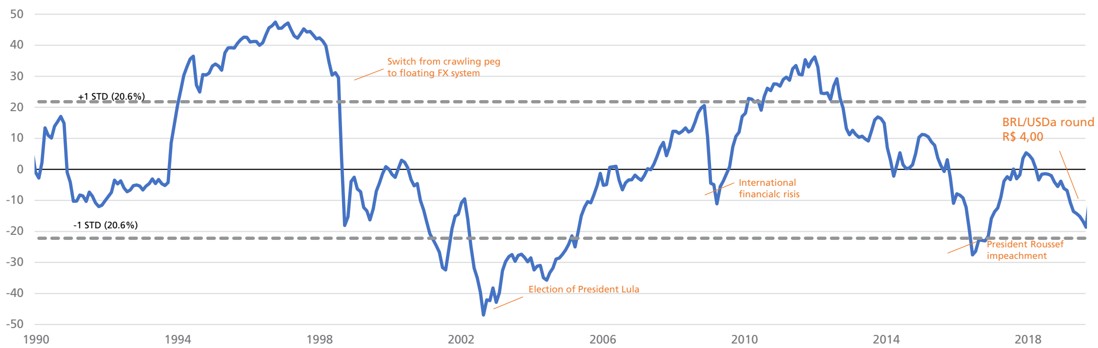
16 UOL "Com reeleição abaixo de 50%, Camara terá renovação recorde" https://www1.folha.uol.com.br/poder/2018/10/com-reeleicao-abaixo-de-50-camara-tera-renovacao-recorde.shtml
17 The Brazilian senate (upper house) has a total of 81 members but only 2/3 were passive for the 2018 elections.
18 Brazilian national accounts (quarterly) from IBGE SIDRA tables https://sidra.ibge.gov.br/tabela/1846
19 Autonomy internal analysis https://fortune.com/fortune500/
20 Brazilian Central Bank Focus report as of January 3, 2020, https://www.bcb.gov.br/publicacoes/focus

6. Neutral to favorable currency entry point.

In the universe of emerging economies, understanding the way local currencies behave and trying to time the market while executing on medium to long-term investment strategies have proved to be inefficient, to say the minimum. Choosing experienced managers, with proven realized track record (net in USD), who understands the macro factors that affect a country's economy and its cycles, is keen.

Autonomy believes the Brazilian currency presents a neutral to favorable foreign exchange BRL/USD entry point. Despite lower intertest rates, lower inflation, the BRL has depreciated in 2019, mainly due to global risk sentiment off amid an escalating trade war and a smaller differential between domestic interest rates and other countries (making the BRL less attractive from a carry-currency perspective).

BRL/USD real effective exchange rate
(% deviation from long term PPP equilibrium)



In the short-term, up to two years, the Brazilian currency (BRL) is quite unpredictable and subject to high volatility with a standard deviation of 21% around the mean. Despite the volatility, the BRL does not drift from estimated long-term purchase power parity. Overtime, however, the BRL becomes more predictable as its rate of depreciation follows inflation differential Brazil/USA (continuous compound depreciation rate of 4.6% since 1994)[21].

A few other considerations towards mitigating BRL currency risk:

• Long-term investors in Brazilian assets BRL denominated are better off indexing to local inflation contracts as they capture full inflation adjustments while the BRL/USD exchange rate adjusts by inflation differential of these two currencies.

• Staged capital deployment to average foreign exchange rates up & down as well as to allow inflation to lift real asset values over time is a good proxy for full inflation indexation.

To mitigate local currency volatility, Autonomy disciplined investment approach captures beyond the positive intrinsic features of the real estate asset class: (i) low correlation to other asset classes, (ii) high correlation to inflation, (iii) downside protection provided by contracted real assets and the potential upside and cash yield. Autonomy's competitive edge is built over a broad real estate operator expertise on development, technical, marketing and operating, gathered over 200 years of combined experience of its team members.

21 Autonomy internal analysis using the PTAX BRL/USD, published by the Brazilian Central Bank, daily exchange rate since July 1, 1994 (inception of Real Plan) until December 30, 2019.