

LEVY TAKES THE DRIVING SEAT



SUMMARY

"This is not a year when we will celebrate the GDP in December, but we will celebrate what we need to celebrate: the establishment of a platform with two pillars, of fiscal and monetary policy, so we can grow in the next few years."

- Luiz Carlos Trabuco, President of Bradesco Bank (Valor, Jan 21st 2015)

"With the dollar at its current level and the prices of Brazilian stocks, Paulo Leme believes that many foreign investors will invest into Brazil this year."

- Paulo Leme is CEO & Chairman of Goldman Sachs Brazil - translated from O Estado de S. Paulo with reference to Paulo Leme's comments. (March 6th 2015)

2015 has started with the return of macroeconomic orthodoxy to Brazil, with the announcement of an ambitious fiscal program and the rise of the benchmark interest rate, among other measures. The Brazilian real continues to depreciate, reaching a 10 year low of 3 per US dollar (please see chart on the last page). At Petrobras, there are significant changes occurring, in an attempt to deal with the company's current problems. As for real estate, a slowing market is creating a number of opportunities and we highlight Sam Zell's optimistic views for the Self Storage sector in Brazil.

Prolifico has had a promising start to 2015 and is currently looking to close a number of new and exciting investment opportunities. We are experiencing the return of the "contrarian" investor, who is seeing the present moment as an attractive time to enter Brazil, both from a market and currency standpoint.

Please read on for more on the above and for some other interesting topics. From now onwards, we will be sending out The Prolifico Report every 2 months.

All the best,

The Prolifico Management Team

INSIDE BRAZIL

Levy completes the first phase of market friendly fiscal adjustment



Joaquim Levy, New Finance Minister

Joaquim Levy, Brazil's new Finance Minister, has completed the first round of an R\$111 billion fiscal adjustment package, including a reduction in government expenses, changes in unemployment benefits and tax increases on credit, among others. Mr. Levy expects to raise the primary budget surplus from -0.63% of GDP in 2014 to 1.2% in 2015. The minister believes that the measures will be sufficient to ensure the compliance with the 2015 target but stated that the government will not hesitate to do necessary adjustments to the program, if need be. The equivalent to R\$24 billion (22% of the program) depend on congress approval.

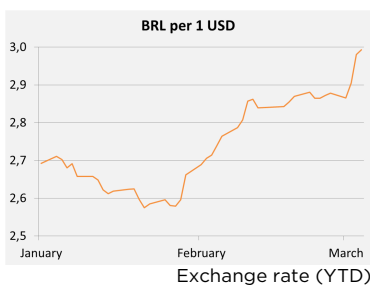
Central Bank committed in its fight to curb inflation



Central Bank headquarters

The Brazilian Central Bank (BCB) raised, on March 4th, the benchmark interest rate (Selic) by 50 bps to 12.75%, extending the monetary tightening cycle initiated after October's presidential election. Inflation (IPCA) is currently above 7.0%, but according to the BCB's survey (gathering forecasts from approx. 100 financial institutions) from February 27th, the market is now optimistic that inflation is heading back towards the middle of the target range and is forecast to reach 5.5% by the end of 2016.

Depreciating real to help reduce the current account deficit



Since the beginning of the year, the real has depreciated more than 15% versus the dollar. General economic slowdown, uncertainty about congress' support for the fiscal adjustment, risks of energy rationing and the reduction of the Central Bank's interventions in the FX market are seen as some of the main reasons for the devaluation, coupled with the strengthening of the US dollar, which has been appreciating strongly versus most EM currencies. The dollar index, which measures the currency against a basket of rivals is trading at an 11 and a half year high. Levy added fuel to the real's depreciation by saying, at the start of the year, that he backed the withdrawal of Central Bank intervention and that he sees the devaluation of the real as a necessary tool to reignite the export market and reverse the current account deficit.

New CEO and Levy to work on a solution for Petrobras



Aldemir Bendine, new Petrobras CEO

Aldemir Bendine, former CEO of Banco do Brasil, has been appointed as the new CEO of Petrobras. He is expected to work with Levy on the adjustment of the company's balance sheet. According to *Valor*, a solution satisfying both the auditor and the market regulators may already have been found, which would result in an asset value reduction of R\$20bn instead of the previously disclosed R\$88bn. Petrobras has until June to complete the adjustment and to disclose audited financial statements, otherwise risking debt service acceleration and its access to the debt capital markets. For now, the situation isn't critical as Petrobras should end 2015 with US\$ 8bn to US\$12bn post debt service and investment.

BRAZIL EXTRA

Leroy Merlin to invest R\$ 2 billion in Brazil over the next 5 years

The French home-improvement retailer is aiming to invest R\$ 2 billion in the expansion of its network in the country over the next 5 years. Having been in Brazil for 16 years, the group has ambitious plans to fuel its expansion, aiming to triple in size by the end of 2019 to reach 100 stores. When asked about the timing of these new investments in the country, Leroy Merlin's Brazil CEO, Alain Ryckeboer, says the Group shareholders "see Brazil as a film rather than a picture" and "the film is going very well so far".



Leroy Merlin store in São Paulo

General Motors is investing R\$6.5 billion to expand production

General Motors is celebrating 90 years of operations in Brazil and commemorated the milestone with a new logistics centre in São Caetano do Sul (SP). GM's president for South America, Jaime Ardila, said the São Paulo operations will receive half of R\$6.5 billion investment destined for Brazil. The new facility occupies an area of 30,000 square metres and allows for the processing of 1.4 million parts per day, consisting of 4,000 different types of components. At its São Caetano do Sul industrial complex, GM has the capacity to produce one car per minute.



São Paulo Motor show

Brazilian executive will be IMF's number three

Brazilian Carla Grasso will be the new Deputy Managing Director and Chief Administrative Officer of the International Monetary Fund. Grasso was appointed in January 2015 by IMF's Managing Director, Christine Lagarde. The position is new to the IMF and Grasso will be its first occupant. She will oversee the institution's administrative functions, from human resources to technology, by carrying out internal audits and reviews. The position is considered third most important at the IMF and has two associate directors.



Carla Grasso, IMF

Madonna buys a house in one of Rio's favelas

Madonna has reportedly bought a house in Morro do Vidigal, one of Rio de Janeiro's most famous favelas. Vidigal is located in the southern region of the city, near some of the finest neighborhoods of the city. The favela enjoys some of the best views in Rio, right over the beach of Leblon and Ipanema. Over the past few years, it has been "pacified" by the police and is now attracting the interest of many tourists and hostels. Real Estate prices have increased considerably in the region and other international stars have also bought properties in the favela, such as the English footballer David Beckham and the American rapper Kanye West.



Madonna

REAL ESTATE

Tenants' market affects returns for real estate funds

The recent economic slowdown has led to an increase in the bargaining power of tenants, especially in commercial buildings, some of which are experiencing increased vacancies. Despite the pressure caused by the economic context, Mr Telles, Director of Coinvalores, says there is no big exodus of tenants from the assets of the four funds managed by their firm, three of which are listed. BTG Pactual, a manager of REITs, said it renewed the lease of the Petrobras' headquarters in Rio de Janeiro at a 13% discount to previous rates. For Rafael Zlot, partner at Brasil Plural, the good news is that despite the challenging environment, most corrections are already priced into the secondary market and "from now on the trend should be upwards". According to Citi Corretora, shares in REITs are trading at an average discount of 23% to book value.



Vitra Residential, São Paulo



Port Corporate, Tishman Speyer, Rio



Porto Maravilha, Rio

Alternative Real Estate



Sam Zell, investor

Real Estate industry creates digital network to speed up financing

Nearly 320 notaries of real-estate registries in São Paulo developed a digital network to exchange documents and information, in order to reduce red tape for residential financing, which on average takes 30 days and can take up to 3 months. Through this network, Caixa Econômica Federal approved a housing loan in less than 5 days, a timeframe that should become the standard once the system expands nationwide.

Tishman Speyer opens AAA commercial tower in Porto Maravilha

Going through massive infrastructure improvement, the port region of Rio de Janeiro saw the opening of the first new-build AAA commercial tower in December - 35,000m² developed by Tishman Speyer, which follows the opening of the Sao Carlos redevelopment early 2014. In March this year, HSI plans to inaugurate an additional 77,000m² of commercial space. There are currently almost 20 other projects underway, with 2 topped out and 3 out of the ground. The buildings will be up to 150 metres in height and will transform the region's landscape.

Sam Zell sees opportunities in Brazil and Self Storage

According to a recent interview with Exame, Sam Zell remains optimistic on Brazil and believes that the country's fundamentals will prevail. He does not see real estate prices falling indiscriminately and argues that the situation in Brazil is very different from the one experienced in the USA in 2008, for Brazilian banks are financially healthy and do not offer any toxic instruments. Self Storage is Zell's largest investment in Brazil; he sees no limit for the sector's growth, pointing out a number of strong drivers, such as the rise of the middle class and the reduction in size of apartments, which are creating significant opportunities in the sector.

PROLIFICO UPDATE

PROLIFICO

Prolifico Group capital increase

Prolifico's holding company was recently capitalised by a group of investors close to the firm. The capitalisation provides the Group with additional liquidity to grow its business into the future.

Prolifico's F&F Fund up 245% in 4 years

KPMG's 4th Year valuation of Prolifico's F&F Fund's assets has just been completed. The valuation showed an asset appreciation of 245% in 46 months.

Planning Achieved for Sao Paulo site

Full planning permissions achieved for the Sao Paulo Self Storage site and now ready to break ground.

Permissions achieved for increased built area for Rio site

Received permissions to increase Rio de Janeiro Self Storage site to 19,000 m² from the original base case of 16,000 m².

Pipeline

Refreshed pipeline of US\$100 million+ ready to purchase, develop and retrofit

Student Housing: Distressed Asset

Prolifico is underwriting a distressed 600+ bed student housing opportunity in one of Brazil's major university cities, the construction is already 90% complete.

Smart Hotels: Planning achieved for first site in Rio

Full planning permissions achieved for the Rio site and now ready to break ground.

Retrofit

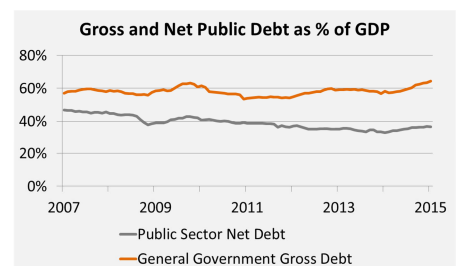
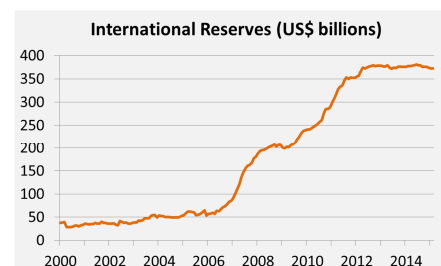
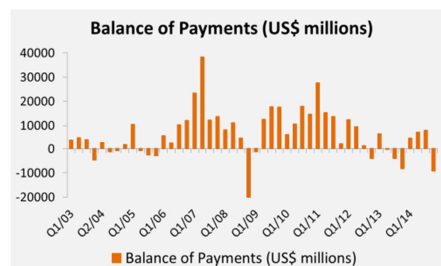
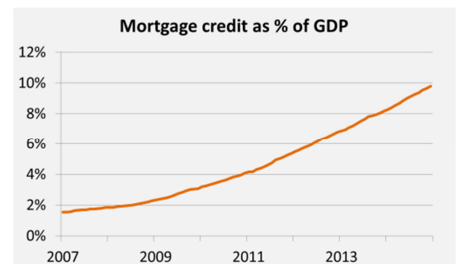
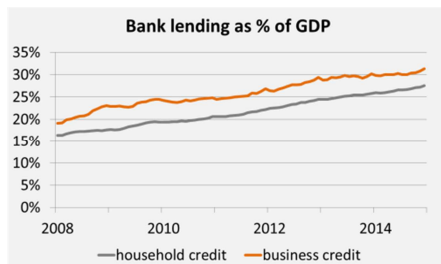
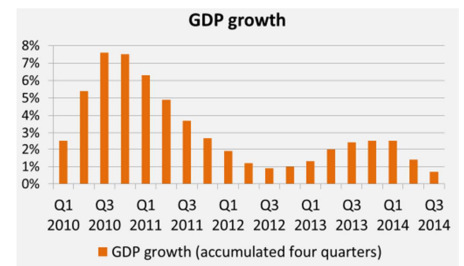
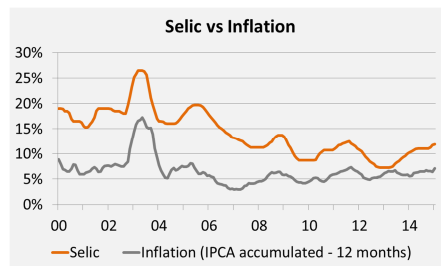
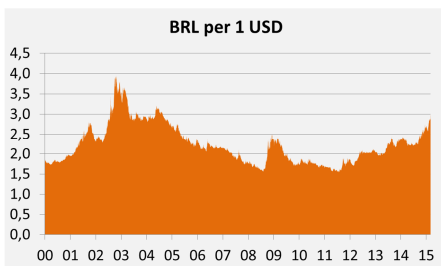
Prolifico has secured exclusivity on an asset which was formerly a school and owns another asset which was formerly office space, both of which it is planning to retrofit for Senior Living.



KEY ECONOMIC DATA

GDP Q3'14	+ 0.1%	US Dollar ¹	R\$ 3.04		2015 ⁴	2016 ⁴
Benchmark Interest Rate (Selic) ¹	12.75%	Dollar variation YTD ³	+ 14.32 %		GDP	- 0,58% 1,50%
Inflation - IPCA Feb'15 ²	7.7%	British Pound ¹	R\$ 4.57		Selic	13,00% 11,50%
IBOVESPA Year to Date ¹	- 0.16%	Euro ¹	R\$ 3.30		US Dollar	R\$ 2,91 R\$ 3,00
IBOVESPA change Feb'15	+ 9.97%	Unemployment (PME) Jan'15	5.3%		Inflation	7,47% 5,50%
		International Reserves ¹	US\$ 371 billion			

1. As of March 6th 2015
2. twelve month period
3. variation of the price of 1 USD in BRL terms (as of March 6th 2015)
4. projections for year-end, as of Feb 27th, according to the focus bulletin of the Central Bank (median of market expectations)



Source: Brazilian Central Bank, IBGE, IPEA, Google Finance and Portal Brasil. (Data as of Mar 6th 2015 or the most recent available)

Prolifico is an alternative real estate & private equity investment management firm in Brazil. The company invests in high yielding real estate dependent business models that are resilient in all macroeconomic scenarios, such as self storage, student housing, senior living and data centres. <http://www.prolifico.com.br/>

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