6th Letter to Investors

2H 2024

We practice a bottom-up investment approach, but 2024 was a year in which macroeconomic factors were the primary drivers of asset performance. We therefore begin this letter with a short discussion of these factors. We then analyze and describe the performance of some of the businesses in our portfolio; and conclude with an inquiry into a specific subject, with case studies: capital allocation as a mechanism for generating shareholder value in challenging periods.

Throughout 2024, macroeconomic expectations in Brazil continuously deteriorated. We started the year in an easing cycle, with a 3-year fixed-rate bond at 9.71% and a 10-year bond at 10.37%. However, we ended the year in a hiking cycle, with the 3-year bond at 15.89% (+618 bps) and the 10-year bond at 14.98% (+461 bps).

The U.S. yield curve also deteriorated: 30 bps on the 3-year fixed-rate bond and 70 bps on the 10-year bond. However, this deterioration was caused by robust economic activity, a healthy business environment, and strong earnings growth. As a result, this deterioration in the curve was insufficient to prevent another strong year for the S&P 500, which rose 23.3% in 2024.

Most public businesses in Brazil delivered good operational performance in 2024 – those in our portfolio performed even better. However, the intense deterioration of macroeconomic expectations proved more decisive, and stock performance was disappointing: the **Ibovespa** closed the year at –10.4%, and the **Aster FIC FIA** fund at –14.4% (fact sheet).

Not only did we achieve solid operational results in our portfolio businesses in 2024, but these were generally in line with expectations. Although there were some negative revisions, the weighted average EPS[1] revisions for the portfolio were marginally positive, which led to another year of significant contractions in multiples.

In this table we show the weighted average operational performance of Aster's portfolio up to the most recent reported results (12 months vs. 12 months):

Weighted average of the portfolio	3Q24 LTM vs 3Q23 LTM
Revenue growth	17%
Ebitda growth	21%
EPS growth	26%
ROIC	18%

[1] EPS = earnings per share

Even with the solid operational performance of the businesses, we are experiencing an environment of pessimism in Brazil. Despite this challenging macroeconomic scenario, we continue to support the argument from our previous letter: the current price levels present an attractive opportunity for long-term investors. Prices have not been at these levels since the Dilma crisis.

Below, we detail the portfolio's main negative and positive results in 2024.

Attributions

The three worst-performing assets in the portfolio in 2024 were, in this order, **Equatorial**, **Cosan**, and **Localiza**, with a combined attribution of –6.95%.

Equatorial

Equatorial remained among our largest positions throughout the year. Despite a negative price performance, of –21.6%, in 2024, it was a positive year for the company. We increased our position during the year, and by the end of 2024, it was not only our 2nd largest holding but also among the top 5 additions of the year.

Equatorial continues to demonstrate operational excellence, with solid DEC/FEC[2] operational indicators and a remarkable turnaround performance at Celg.

In less than two years since its acquisition, **Equatorial's** annualized Ebitda has increased from BRL 1.2 billion to BRL 2.5 billion, now 30% above the regulatory benchmark. **Celg** has been the primary growth driver for Equatorial, accounting for approximately 70% of the addition to its Ebitda over the past 12 months. However, there is still significant untapped potential.

With this Ebitda increase over 12 months, we estimate that **Celg** alone has generated at least BRL 8 billion in intrinsic value for Equatorial's shareholders.

Additionally, **Equatorial** acquired a 15% stake in Sabesp, becoming the 'reference shareholder' to be responsible for leading the direction of **Sabesp's** business. The mark-to-market of this investment indicates a value creation of BRL 2 billion in 2024. However, its significance extends far beyond that. **Sabesp** will execute one of Brazil's most extensive investment programs – BRL 70 billion by 2029 – aimed at achieving universal access to water and sewerage in the country's most important state: São Paulo.

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[2] The most important regulatory indicators for energy distribution concessions, which measure the frequency and duration of blackouts.

We estimate that **Celg** and **Sabesp** have already generated at least BRL 10 billion in incremental intrinsic value for Equatorial's shareholders. However, the movement in the interest rate curve proved to be a more decisive factor, causing Equatorial's market value to drop by BRL 10 billion in 2024. This has created an asymmetry that we find highly attractive.

Cosan

Cosan was not among our top 10 positions, but its negative performance placed it among our three worst results. We no longer hold this position.

Cosan is a complex group that controls several businesses: **Rumo** (rail transportation), **Compass** (gas distribution), **Raízen** (fuel distribution and sugar/ethanol production), and **Radar** (agricultural land investments). In addition to these businesses, it also held a stake in Vale do Rio Doce (VALE).

A well-known issue with **Cosan** is its high leverage. As of its last earnings release, the group's net debt[3] stood at BRL 65 billion — BRL 31 billion at the holding company level — disproportionate to its Ebitda of BRL 13.2 billion[4], especially in a high interest rate environment.

Despite this, **Cosan's** controlling shareholder recognized that leverage had become excessive and decided to prioritize deleveraging. A potential sale of the BRL 9 billion stake in **VALE** alone could address nearly 30% of the problem — a doable move given **VALE's** average daily trading volume of BRL 2.9 billion[5]. This divestment eventually materialized in January 2025.

Cosan's largest businesses have been delivering strong operational results, and our thesis is that the combination of solid operational growth with the start of the deleveraging process could unlock significant shareholder value.

However, the worsening interest rate environment led us to reassess **Cosan's** probability distribution. Given the group's high indebtedness, the carrying costs of its operations became excessively burdensome. While we do not perceive a deterioration in **Cosan's** credit risk, the debt consumes more shareholder value than we initially anticipated when entering the investment, and we decided to divest.

[3] Net debt proportional to stakes in subsidiaries. Includes risk-assumed operations for Raízen and the preferred equity in the holding company.
[4] 3Q24 last twelve months Ebitda, proportional to stakes in subsidiaries.
[5] Sum of the average daily trading volume of VALE3 on Bovespa and VALE on the NYSE.

Localiza

Localiza started the year as one of our largest positions, but we began reducing our exposure in February, and we divested fully by July. This divestment was among the top three most significant reductions in exposure during 2024.

Localiza experienced solid growth until the Covid pandemic. It temporarily paused vehicle purchases during the sharp price increases caused by the chip supply shortage and resumed growth in 2021–2022 as prices continued to rise. To manage this volatility, it extended the lifespan of cars before resale. It entered 2023–24 (the cycle of selling vehicles acquired in 2021–22) with older cars than it usually sold and an inadequate mix.

As a result, the resale prices of used cars were disappointing. **Localiza** operates a fleet valued at approximately BRL 50 billion, with profits of around BRL 3 billion, so disappointments in realizing the value of this asset significantly impact the company's profits.

We believed this issue was temporary and that, after adjustments in car rental pricing and normalization in the resale value of an adjusted car mix, the company would return to delivering an ROIC spread over its cost of debt (K_d) in line with its historical performance, around 5–7%. For this reason, we maintained a position.

However, we further observed signs of growth fatigue at **Localiza**, and we are still evaluating whether this is a temporary issue or if we might be entering a new phase of modest growth in the addressable market.

We still consider **Localiza** an attractive investment case, yet we have always framed it as a high-growth investment. However, we decided to divest because there is insufficient evidence to support robust volume growth in the coming years. If **Localiza** is in a chapter with more modest growth, we will wait until its stock price reflects the new reality.

The three best-performing assets in the portfolio in 2024 were **Nubank**, **MercadoLibre**, and **Santos Brasil**, in that order. Together, they had a combined attribution of 7.32%.

Nubank

Nubank (NU) was the portfolio's highlight in 2024. Despite a +58% increase in BRL terms over the year, our P/E[6] ratio expanded by only +8% during the same period, indicating that this return was driven primarily by strong earnings growth.

In 2024, the bank reached the milestone of 100 million clients in Brazil, of which we estimate more than 50 million use **NU** as their primary account. Furthermore, it continues to add over 1 million clients per month.

Despite holding an approximately 30% market share of primary accounts in Brazil, **NU** has only 13.4% of the credit[7] card market, and market share of 3.1% in personal loans[8], its main products. We see significant room to continue (1) acquiring new clients, (2) converting more clients into primary account holders, and (3) increasing product penetration per client.

The thesis that a well-managed digital bank could operate at a substantially lower cost at scale has materialized at **NU**. Accelerated revenue growth has been accompanied by a more modest increase in operating expenses, resulting in **NU** more than doubling its profit over the past 12 months. Annualizing its 3Q 2024 earnings, **NU** is now achieving a 30% ROE[9], significantly higher than its peers (if we isolate its Brazil operation, the ROE is substantially higher).

NU has a low-leverage balance sheet, with BRL 40 billion more deposits than loans. This balance sheet position enables the bank to continue expanding its ROE while gaining further market share in its segments.

Despite our conviction of **NU's** potential, we are navigating a challenging market environment that requires extra caution on expectations for return scenarios. Due to a rebalancing prompted by the strong stock performance in 2024, **NU** is among our three most significant reductions in exposure for the year.

MercadoLibre

MercadoLibre (MELI) had another exceptional year. Despite a 39% increase in the stock price (in BRL), **MELI's** P/E[10] contracted over the year of 2024. This reflects accelerated earnings growth and positive revisions in our profit projections in BRL.

[6] Price/Earnings – 12-months forward.
[7] Includes Pix Financing. 3Q24 base.
[8] Includes payroll-deductible personal credit and non-payroll personal credit. 3Q24 base.
[9] ROE = return on equity.
[10] Price/Earnings – 12-months forward.

Even as the leading e-commerce platform in Latin America, **MELI** continues to add over 1 million new buyers monthly.

In Brazil, we estimate that **MercadoLibre** grew its GMV[11] by +31% in 2024, adding over BRL 32 billion in GMV – the most significant annual increase in its history. From 2022 to 2024, we calculate that **MercadoLibre** gained +9 percentage points of market share in Brazilian e-commerce, reaching nearly 40%, comparable to Amazon's market share in the U.S.

In credit, 2024 was marked by an acceleration in originations, mainly through the credit card segment. We estimate that the credit portfolio of **Mercado Pago** in Brazil doubled from the end of 2023, surpassing BRL 20 billion. Specifically in credit cards, **MELI's** share of the market growth in 12 months exceeded 10%, reflecting the rapid pace of growth. We believe this is a sound long-term strategy, considering:

1. Credit is the largest profit pool in the country;

2. **MELI** has clear competitive advantages in specific situations – such as purchases through its marketplace; and

3. **MELI** has proprietary consumer behavior data that is unparalleled and critical for credit modeling.

In Mexico, despite competition from some of the best companies globally – such as **Amazon** and **Nubank** – **MELI** continues to strengthen its leadership across all business units. In commerce, the numbers remain strong, with more than +25% GMV growth in 2024 – the country's most significant annual addition ever. We see Fintech as an even larger opportunity than e-commerce in Mexico. Beyond credit cards, a segment where **Mercado Pago** has already built a portfolio exceeding USD 500 million, we identify a significant opportunity in SME credit. The traditional financial system underserves these businesses. Mercado Pago has unique access to it through its MPOS business, where it is already a leader and continues to double year-on-year.

Signs of recovery are evident in **Argentina**. After a weak first quarter, volumes grew in the following quarters. With a more favorable macroeconomic environment and inflation under control, **MELI** should be among the players most benefited if Argentina's recovery materializes.

As with **NU**, we reduced exposure to MELI throughout 2024, among our top three most significant reductions of the year. This decision was primarily driven by the strong stock performance, which reduced the investment's margin of safety.

[11] GMV = Gross Merchandise Value.

Santos Brasil

Santos Brasil, the controlling company of the port of Santos, was one of the positive highlights of the portfolio in 2024, appreciating 69.7% in the year. This was primarily driven by positive earnings revisions, resulting from volumes and prices exceeding market expectations, and the change in control announced in September.

The company's container volume grew by 25% in 2024 and was running close to full capacity utilization - the key elements for a strong 2024 were present. However, our investment thesis in **Santos Brasil** concluded in September 2024 when the controlling shareholder announced the sale of its stake and a tender offer (OPA) to be conducted by CMA CGM, the company's client. The transaction included a 20% premium over the closing price before the announcement.

Moves

As well as discussing our best and worst performers, we would also like to **highlight our key portfolio moves in 2024.**

We have already covered our three most significant reductions in exposure: Nubank, MercadoLibre, and Localiza. Next, we discuss **our three most significant increases in exposure in 2024**: **Rede D'Or**, **Smart Fit**, and **Sabesp**.

Rede D'Or

Our investment thesis for **Rede D'Or** (RDOR) was strengthened throughout 2024. We began to see the benefits of progress in the insurance division. In the hospital division, the company achieved strong operational results. It established a highly significant partnership with its largest client, **Bradesco Saúde**, which became a shareholder in some of **RDOR's** hospitals.

Building and operating a new hospital carries considerable risk, as health insurers must accredit the facility for their beneficiaries to access it. As a claims control mechanism, insurers tend to restrict accreditations for new hospitals.

In 2024, **Bradesco** and **RDOR** announced the creation of **Atlântica D'Or**, a joint venture in which they share economic participation and will manage at least six new hospitals. This partnership allows these hospitals to ramp up occupancy more quickly. In our view, this event represented an even broader validation: It strengthened **RDOR's** relationship with its largest client, which accounts for approximately one-third of its hospital division Ebitda, benefiting its entire portfolio of 78 hospitals.

Additionally, in 2024, the company delivered an organic addition of 1,200 beds – the largest in its history. This number of beds alone would be equivalent to Brazil's sixth-largest private hospital group by revenue (excluding philanthropic and vertically integrated hospitals). The company will close the year with 13,000 beds, three times the size of its largest competitor.

Finally, we also began seeing much more positive results from **RDOR's** insurance division, **SulAmérica**, which was acquired in 2022. Commercial performance was healthy, combined with a less volatile claims trajectory and a significant increase in technical provisions, which rose from BRL 4.7 billion in December 2022 to BRL 8.5 billion in September 2024. Even with this increase in technical provisions, we saw **SulAmérica's** Ebitda grow from zero in 2023 to BRL 1.2 billion in 2024, and we expect it to surpass BRL 2 billion in 2025.

Smart Fit

Smart Fit (SMFT) is the largest gym chain in Latin America and one of the largest in the world, with 1,753 gyms. It has reached this scale through predominantly organic expansion, focusing on proprietary units, and now operates in 15 countries.

We estimate that this organic expansion has been executed at an attractive IRR of 17–18%, and we see the potential for the company to grow to several times its current size.

In 2024, **Smart Fit** added 305 new gyms – an increase of 21% from 2023. It continues to refine the expansion engine it has built over the years. Over the last 12 months, it achieved revenue growth of +30%, and Ebitda growth of +31%, respectively.

Currently, 54% of **Smart Fit's** gym network is located outside Brazil, and in 2024, 62% of the new openings were also outside Brazil. It is one of the rare examples of a successful international expansion by a Brazilian company, and is already the market leader in 9 of the 15 countries where it operates.

Brazil continues to be its primary market, with 117 new gyms added in 2024. Two-thirds of these additions were outside the São-Paulo-Rio 'axis', creating new markets that can be densified in subsequent phases – a strategy similar to that implemented by another portfolio investment, **RD Saúde.**

Smart Fit exemplifies a situation where the strong get stronger, expanding its competitive advantages and allocating significant capital at attractive rates.

While we remain cautious about the consumption and disposable income environment in Brazil, we believe that **Smart Fit's** superior value proposition, combined with its well-developed expansion model, offers an investment opportunity at a P/E ratio of less than 16x in a business expected to more than double its EPS over the next three years.

Sabesp

The investment thesis for **Sabesp** was unlocked by the entry of a new anchor shareholder, **Equatorial,** who is now leading the business. This thesis combines the significant growth potential of essential sanitation services in São Paulo with the efficiency gains from a private management approach focused on value creation.

The BRL 70 billion investment plan through 2029 is one of the largest in Brazil today. It aims to achieve universal basic sanitation in São Paulo. The plan is supported by an enhanced regulatory framework, which allows us to view this investment need as an opportunity rather than a risk.

The regulatory framework governing **Sabesp's** business establishes a real return of 12% on the company's asset base. **Sabesp** creates shareholder value through two main levers:

1. Operational efficiency gains, increasing the return on the asset base.

2. Expansion of the asset base through execution of the investment plan.

Since **Equatorial** effectively assumed operational control, we believe the probability of success for both of these value creation levers has increased. If **Sabesp** achieves the universalization target by 2029, the company's asset base will nearly double, implying an expected 150% return for shareholders over four years.

The critical success factor for this investment is the company's execution capacity, combined with a stable regulatory environment over time. We see **Equatorial's** management as a decisive factor in mitigating execution risks. Additionally, there is no competition with China or significant risk of technological disruption – highly desirable attributes in the current business environment.

Capital allocation: A key mechanism for generating shareholder value

We often discuss the persistence of strong businesses in becoming stronger, particularly during the most challenging times. This incremental superiority is built through various mechanisms: more efficient operations; better and more aligned teams; more cohesive cultures that enable organizations to adapt more effectively; and capital allocation. Below, we highlight case studies of capital allocation decisions made by companies in our portfolio since the inception of Aster Capital.

We decided to write specifically about capital allocation because many of the best opportunities arise during challenging times.

Capital allocation decisions occur across several dimensions, but we can highlight the management of the pace of organic expansions, acquisitions of other companies, and issuing or repurchasing shares.

"My suggestion: Before even discussing **repurchases**, a CEO and his or her Board should stand, join hands, and in unison declare, '*What is smart at one price is stupid at another*.'"

Warren Buffett

ALLOS

Allos is Latin America's largest shopping center company, built through organic and inorganic capital allocation. It is also the company behind the largest acquisition in the Brazilian sector's history: the 2022 acquisition of **brMalls**.

A precursor to the **brMalls** acquisition was the issuance of BRL 1.2 billion in December 2019 through a stock offering at BRL 43 per share. At the time, this represented a cap rate[12] of 7% and a P/FFO[13] of 23x.

In April 2022, **Aliansce Sonae** obtained approval from **brMalls'** board to execute the transaction (forming **Allos**), paying 326.3 million shares plus BRL 1.25 billion. This transaction valued **brMalls** at a normalized P/FFO of 10x and a cap rate of 15%.

Following the **brMalls** acquisition, **Allos** held stakes in 53 shopping centers, and initiated a portfolio optimization phase. This new chapter began in September

[12] Multiple defined by NOI / Enterprise Value, widely used to evaluate real estate businesses. NOI, in turn, is the property's income minus its direct costs ("Net Operating Income").
[13] A multiple similar to P/E, but using an adjusted earnings in the denominator that adds back depreciation expense ("Funds from Operations").

2023 with the partial divestment of Shopping Plaza Sul. Since then, **Allos** has executed divestments totaling BRL 2.5 billion[14] at an average cap rate of 8.2% and used BRL 1.3 billion of these proceeds to repurchase its shares at an average cap rate of 15% and a P/FFO of 9x.

Since 2019, **Allos** has systematically allocated capital, using the opportunities the market offered to its favor, generating significant shareholder value. It has been investing at multiples around 50% lower than the multiples at which it sold its shares.

Even with the unexpected shock of the current hiking cycle in Brazil – a headwind for this equation – we estimate that the capital allocation journey initiated with the December 2019 offering has already generated an EPS at least 22% higher than it would have been without this strategy. This analysis does not include any assumptions about market multiples.

When incorporating a multiples-based layer of analysis, we estimate that **Allos's** current value per share is 30–35% higher than it would have been without these capital allocation decisions. This increase can be attributed to:

- Higher EPS

- Greater business relevance

- Improved competitive position

- A stronger balance sheet

- More consistent dividend distributions

- Increased stock liquidity

We, therefore, attribute BRL 2.2 billion of Allos[15] BRL 9.7 billion market value to its capital allocation decisions.

Rede D'Or

Rede D'Or (RDOR) is the largest hospital network in Brazil, managed by the most solid team in the healthcare sector. The company went public in December 2020 and conducted an additional capital raise in a follow-on offering in May 2021, raising a total of BRL 10 billion at an average share price of BRL 57. The average of the two offerings represents a P/E of 53x.

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[14] The company divested, either fully or partially, from 14 shopping malls during this period.
[15] December 2024 closing.

In February 2022, **RDOR** announced the acquisition of Brazil's second-largest health insurance company, **SulAmérica**. This acquisition was paid entirely in **RDOR** shares, meaning **RDOR** used shares trading at a forward P/E of 48x to acquire an asset that, two years later, is expected to generate a profit of BRL 1.3 billion — implying that **RDOR** paid a P/E of 10x for the asset.

However, this argument alone is incomplete. Not only do we believe that **SulAmérica** would not have delivered a profit of BRL 1.3 billion without being integrated into RDOR, but relying on this logic alone could justify acquiring inferior businesses simply because they trade at lower multiples.

In this case, **SulAmérica** strengthens **RDOR's** competitive position in the hospital business by ensuring a more harmonious volume relationship between the largest healthcare provider and the second-largest insurance group. It also accelerates the accreditation process for new hospitals, mitigating risks associated with **RDOR's** expansion plan.

While we acknowledge that the insurance business should trade at structurally lower multiples than the leading hospital network, with a normalized ROIC of 18–19%, we see a clear strategic rationale behind this acquisition that mutually reinforces the strengths of both businesses.

With the correction in **RDOR's** stock price, despite an expected EPS growth of 75% in 2024 and 26% in 2025, RDOR repurchased BRL 900 million shares at an average P/E of 16x - which we expect to be EPS accretive in less than 3 years. Additionally, the controlling family purchased BRL 1.2 billion in shares, demonstrating strong alignment with shareholders.

We see this as a sequence of well-executed capital allocation decisions: issuing shares at the right time, using highly valued shares for a strategic acquisition, and repurchasing shares at an attractive price.

Suzano

In 2018, **Suzano** completed the largest transaction in the history of the pulp and paper industry — the acquisition of **Fibria**, the market leader at the time. The market immediately recognized the value generated by this transaction. More recently, **Suzano** has turned to another strategic acquisition, repurchasing 43% of its own shares issued for **Fibria's** acquisition under more attractive terms than the original 2018 acquisition.

In March 2018, **Suzano** announced the acquisition of **Fibria**, the world's largest pulp producer. According to estimates, **Suzano** valued **Fibria** at USD 2,100 per ton of installed capacity. **Fibria** had an installed capacity of 7.4 million tons and approximately 0.15 hectares of land per ton of installed capacity.

The total transaction value was BRL 37 billion, paid by BRL 29 billion in cash, plus 255 million **Suzano** shares. The market reacted very positively to the announcement, and Suzano's shares rose 55% in the next 30 days.

The acquisition was completed in January 2019. Since then, the new company has distributed BRL 6.3 billion in dividends and inaugurated Cerrado, the world's largest pulp project, increasing its capacity to 15 million tons. The new **Suzano** now controls approximately 30% of the global pulp trade, significantly more than **Fibria's** 19% market share at the time of the acquisition.

Starting in May 2022, **Suzano** leveraged market opportunities to execute a share buyback plan totaling BRL 5.6 billion to date, at an average price implying USD 1,650 per ton of capacity, **but** now it has 25% more hectares of owned land per ton of capacity than **Fibria** had at the time of acquisition.

Since **Fibria's** acquisition, South America – particularly Brazil – has further increased its global market share, solidifying the productivity advantages of the region's pulp companies. This superiority has translated into an estimated 70% appreciation in the value of eligible land (in USD) and a 20% increase in construction costs per ton of capacity (in USD) over the same period.

In other words, **Suzano** has been repurchasing shares of a company that is now an even more dominant leader in the sector than **Fibria** was before the deal, with a higher density of land ownership, and lower marginal operating costs, in a dollarized segment — all at a price per ton of capacity that is at least 21% lower than the **Fibria** acquisition price. These buybacks have already neutralized 43% of the dilution caused by the **Fibria** acquisition in just 30 months. While the **Fibria** acquisition was celebrated as a landmark transaction, Suzano is now executing an even better deal by buying its own shares.

We reiterate our commitment to building a close, transparent, long-term relationship with our investors. We want our partners to understand us well.

We sincerely thank you for your trust.

The Aster Capital Team

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