



Navigating Turbulent Waters

January 2026

Dear investors,

We closed 2025 with a return of 38.76% in the Ártica Long Term FIA, nearly 5% above the Ibovespa's 33.95%, but it was not a period of great excitement or optimism in Brazil. Even with the stock market rising, the equity fund industry experienced negative capital flows, as most investors chose to migrate to fixed income, attracted by the fixed rates of the CDI, which returned 14.25% for the year. As the old proverb goes: fortune favors the bold. However, the true lesson of 2025 is just how difficult it is to predict what will happen in the market.

This new year will also be a challenging period. The political tension building around the elections tends to capture too much attention and inflate the importance of the topic in investment decisions. As a result, the market will likely swing to the rhythm of polling data and sophisticated political analyses, well-grounded or not. This backdrop is not unfavorable for investing. Jolts tend to generate good opportunities. However, it is essential to maintain composure and rationality so as not to be swept up in collective commotion.

The Role of Luck

Some principles are easy to understand but difficult to fully internalize. One of them is that the return on each individual investment depends as much on the quality of the decision as on luck. This reality is inescapable because investment analyses always yield rough probabilistic conclusions — never categorical assertions. A rational investor should allocate capital to an opportunity with an 80% chance of generating good returns, but still depends on luck for the 20% chance of the investment going wrong not to materialize. This creates some inconveniences.

Separating skill from luck in investing is not easy and takes time. A good investor may be unlucky and post poor returns for several years, just as an unskilled investor may have an excellent run through pure luck. Short-term returns are not a good predictor of skill. Only over many years and multiple investments does statistics tend to make the quality of decisions predominate.

The problem is that human psychology is not wired for the long term. Instinctively, the strategy that is making money right now is good, and the one losing money is bad. Without due care, a sound method hampered by bad luck may be abandoned, while a poor method rescued by luck may receive more capital. It is important to understand that the person who won the lottery jackpot is not a genius. Copying their wealth-building method or hiring them as a consultant for number selection are both strategies doomed to fail. The best path is to identify the method that consistently produces good average results when applied across a large number of decisions.

In our experience, the right strategy is to keep the focus on factors that can be predicted with a reasonable degree of accuracy and to limit exposure to those that are entirely random. It is also necessary to appropriately estimate the impact each factor may have on each business, so that more attention is devoted to what is critical.

Let us bring these concepts to our current practical case: the election year in Brazil.

The Election Year

In election years, certain patterns tend to repeat. The closer we get to election day, the more exaggerated and polarized the analyses of each side's victory scenarios released to the public tend to become. This is an inevitable campaign strategy. If you want to convince more people to vote for your candidate, the best approach is to claim that their victory will cure all ills and that their opponent's victory would bring complete ruin. More sophisticated audiences only consume this message in a more elaborate and minimally coherent format, but the essence remains the same.

Another pattern is that electoral themes dominate public debate, pushing aside less immediate events, even ones that may have a greater and more lasting impact. At some point, the tone of newspaper front pages and market reports makes it seem as if the election outcome is all that matters for the country's future — but a few reflections are in order.

The election result is difficult to predict even during campaigns, with polling data in hand. Far in advance, without even knowing who the candidates will be, any attempt at prediction is purely speculative.

The future of most businesses is not typically defined by government policies, except for government-controlled companies, or those under heavy regulation, that face extreme measures. For the entire agribusiness sector, weather conditions over the coming years tend to be more impactful than the election result. Even for Petrobras, the classic example of a Brazilian state-owned company, the price of oil tends to matter more than who the next president will be.

Finally, when we estimate the value of a company, we discount to present value the cash flow it generates from now until the end of time. The nearest years carry more weight in the business's value, but even so, the next 4 years will rarely account for more than one-fifth of the total value.

We believe that this year, much of the market's attention will be devoted to something unpredictable and with less impact than it appears. Amid all this noise, those who follow

the classic strategy will have an advantage: maintaining focus on the microeconomic fundamentals most relevant to each business over the long term.

Despite all this preamble, we will share our outlook for Brazil's future.

Outlook for Brazil

We genuinely do not have a strong view on who will win the elections. There is a global political trend that has been favoring right-wing conservative parties. On the other hand, the Brazilian left is better prepared for political campaigns, and the PT has won 5 of the last 6 elections. For this reason, we prefer to reflect on points that depend less on this binary outcome.

The current government has a strong incentive to try to improve the economy in the short term — at least on the points where improvement is most visible — since the population favors re-election when it wants continuity of what it experienced in the recent past. As a result, we will likely see the implementation of populist measures in 2026 that will exact their price in the years that follow.

The next president will have to grapple with the problem of fiscal imbalance. Economists' preferred solution is fiscal austerity, but politicians' favorite is to pressure the central bank to print more money and finance public spending. Right-wing governments are more likely to opt for austerity, while left-wing ones tend to resort to the second alternative, which inevitably generates inflation. In any case, it is not an easy problem to manage, and a note of caution is warranted for fixed income investors. In inflationary environments, instruments denominated in nominal currency (any type of credit) suffer more than real assets (equities, real estate, commodities).

One area worth watching is diplomacy related to international trade agreements, which may have a greater impact on our economy than local political intrigues. Global geopolitics is being reorganized, and there are opportunities for Brazil — historically quite closed — to expand its foreign trade. For example, we are close to finalizing a free trade agreement between Mercosur and the European Union that has been under discussion for decades. If successful, it would be excellent for Brazilian exporters, especially in the agricultural sector. Despite the weight of this potential agreement, it has received little news coverage and little public debate. We are somewhat cautious because Brazil has a long history of squandering this type of opportunity, and we notice a certain eagerness on the part of the government to take positions on international issues where the country has more to lose than to gain — but we hope that Brazil will eventually leverage its position of neutrality to become more relevant in global trade and, who knows, one day develop industrial sectors of higher added value.

How We Are Positioned

In this uncertain scenario, and anticipating a turbulent season ahead, we intend to maintain our investments in defensive businesses, largely independent of government policies and with their market prices considerably depressed.

Despite the rally in the Brazilian stock market last year, the move was not shared equally across all companies. Several of them continue to receive little attention from investors and appear to us to be mispriced. Over the past few quarters, we have reallocated more

than half of our portfolios, and today we see very attractive upside potential in our investee companies.

Even investing in good companies, we believe that volatility tied to politics will be unavoidable. We will not make any investment decision based on electoral speculation. Our approach will be to keep our analyses of companies already in the portfolio — and a carefully selected group of others — up to date, ready to act quickly if a jolt in share prices creates atypically attractive opportunities to buy or sell.

Finally, the entire management team continues to hold the majority of their personal investments in our equity funds. We believe we are far from seeing the Brazilian stock market overheat, so there is still a great deal of return to be captured by investing in local companies. In parallel, we continue to expand our coverage of foreign companies, as a precaution against a possible future in which Brazil no longer offers as many attractive opportunities as we see today.