CONNECTING PEOPLE,
IDEAS AND CAPITAL

ANNUAL LETTER 2021

January, 2022

Dear investors,

We closed 2021 with a return of 19.4%, above the Ibovespa and the CDI, which returned -11.9% and 4.3%, respectively, over the period. The cumulative return since the Fund's inception, around eight and a half years ago, is 1,335%, which represents an annualized return of 36.8%:

	Year		Since inception	
	Ártica LT FIA[1]	**Ibovespa**	**Ártica LT FIA**	**Ibovespa**
2013	**20.2%**	8.2%	**20.2%**	8.2%
2014	**16.0%**	-2.9%	**39.4%**	5.0%
2015	**-19.7%**	-13.3%	**12.0%**	-8.9%
2016	**50.3%**	38.9%	**68.3%**	26.5%
2017	**151.7%**	26.9%	**323.7%**	60.5%
2018	**98.8%**	15.0%	**742.3%**	84.6%
2019	**33.1%**	31.6%	**1,021.5%**	142.9%
2020	**7.1%**	2.9%	**1,101.6%**	150.0%
2021	**19.4%**	-11.9%	**1,335.2%**	120.2%

2021 in review:

Ártica Asset achieved several important milestones in 2021. Besides delivering a good return to investors (we outperformed the Ibovespa by 31.4%), the fund reached net assets of R$155 million, and we more than doubled the number of investors (from 60 to 125 unitholders).

Most importantly, we have been able to attract investors who share our long-term philosophy. As a reflection of this, 107 of these 125 investors have never made a redemption, and 77 of them have already invested in Ártica LT FIA more than once.

Having aligned investors is essential for us, as managers, to be able to keep making decisions with the long term in mind. Let me explain: imagine that the shares of a good company are trading at R$5.00, and that our conservative

[1] Ártica LT FIA began on June 27, 2013 as an "investment club" and, on September 27, 2019, it was converted into an "equity investment fund." Returns shown from inception on June 27, 2013 through December 31, 2020

valuation points to a fair value of R$10.00 (100% *upside*!). The problem is that, because of market mood, the stock just keeps falling. What should one do in a situation like this?

If you have a long-term mindset, the answer is obvious: buying shares of a good company at a 50% discount is a great opportunity. The stock may not make money in one month (or one year), but over a period of 3–5 years, this investment is likely to be quite profitable. However, if the investor has a short-term bias and is thinking about making money the following month, he will probably let this opportunity pass and, if he does invest, he will not have the stomach to stay invested if the market keeps punishing the stock and it goes from R$5.00 to R$4.00.

Our investment in Unipar illustrates exactly this dynamic. We started the investment in Aug/14 and, in a little over six months, the shares had fallen around 25% (compared with a 12% decline in the Ibovespa over the period)! We had to wait almost two years for the share price to return to the level of our initial purchase price. Without a doubt, a far from encouraging start for the position. Even with the decline, we maintained our conviction in the thesis and took the opportunity to buy more Unipar shares at a good price. The result: in five years, the stock delivered a return of 20x the capital invested!

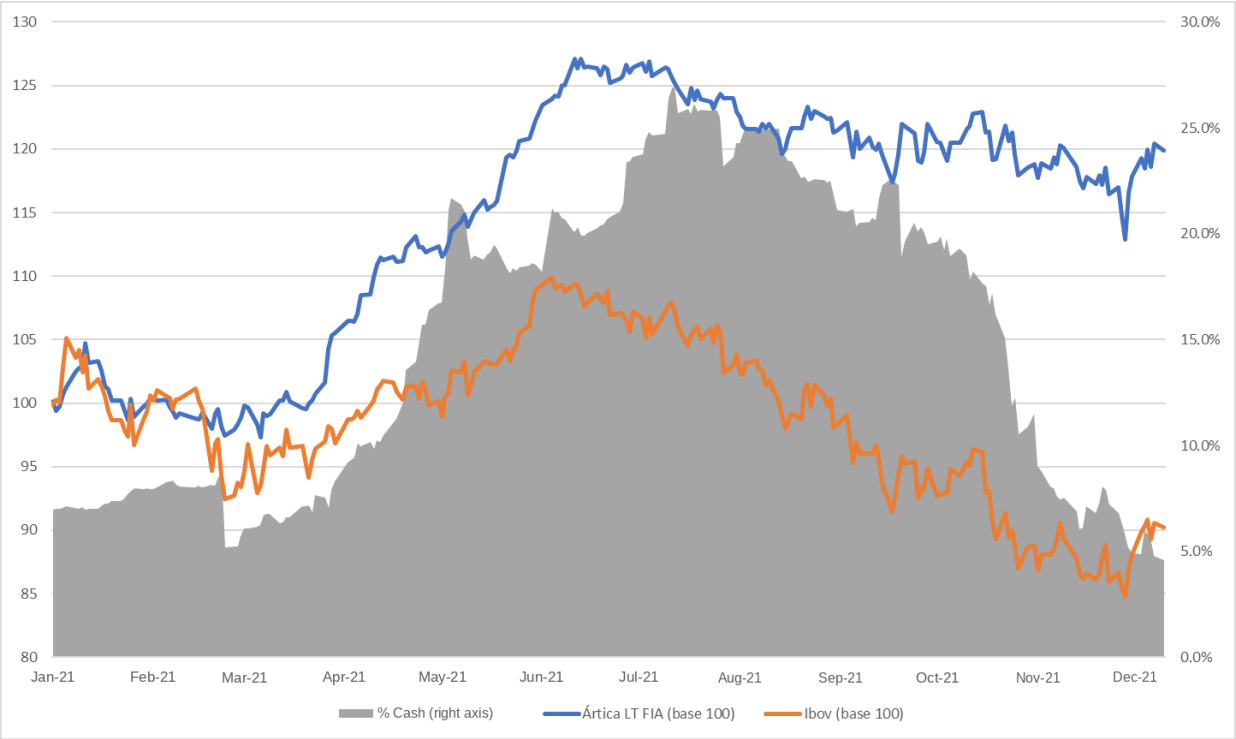
If a manager does not have an aligned investor base, he cannot "afford the luxury" of making this kind of investment. In the extreme, his impatient investors could decide to redeem their money if the returns over the coming months disappoint them (for example, by not beating the CDI), so he needs to focus on getting the next hot pick right and choose the stock he believes the market will push up over the coming months. This is a kind of bet that is difficult to get right consistently.

For this aligned view, our thanks to the investors of Ártica Long Term FIA! (The name is no accident.)

Cash allocation dynamics:

2021 was also a good example of our view on cash allocation. The chart below shows the performance of the fund and of the Ibovespa, as well as the evolution of our cash position (as a % of the fund's net assets) over the year.

Chart 1 – Performance of Ártica LT FIA and Ibov (base 100, left axis) compared with the evolution of cash (right axis) over 2021



We began the year with a cash position of 7% of the fund's net assets and gradually increased it during the first half, almost in line with the appreciation of Ártica LT FIA's units and of the Ibovespa. In this period of rising stock prices, it becomes harder to find new good investment opportunities, so it is natural for our cash position to increase (both through the sale of stocks that, because of their appreciation, are left with a reduced margin of safety, and through dividends received from our portfolio companies).

With the stock market decline in the second half, stocks became cheaper and we were able to find some good investment opportunities, which reduced the fund's cash position to its current level of 6%. (On this subject, we are very excited! With the stock market decline in recent months, we have been able to build positions in great companies at very attractive prices!)

To be clear, at no point do we try to engage in *market timing* (that is, trying to predict the best moments to enter and exit the stock market). We do not know how to do this (and we believe no one does). We simply buy when stocks are cheap and sell when they are expensive.

The dilemma between investing in stocks or fixed income:

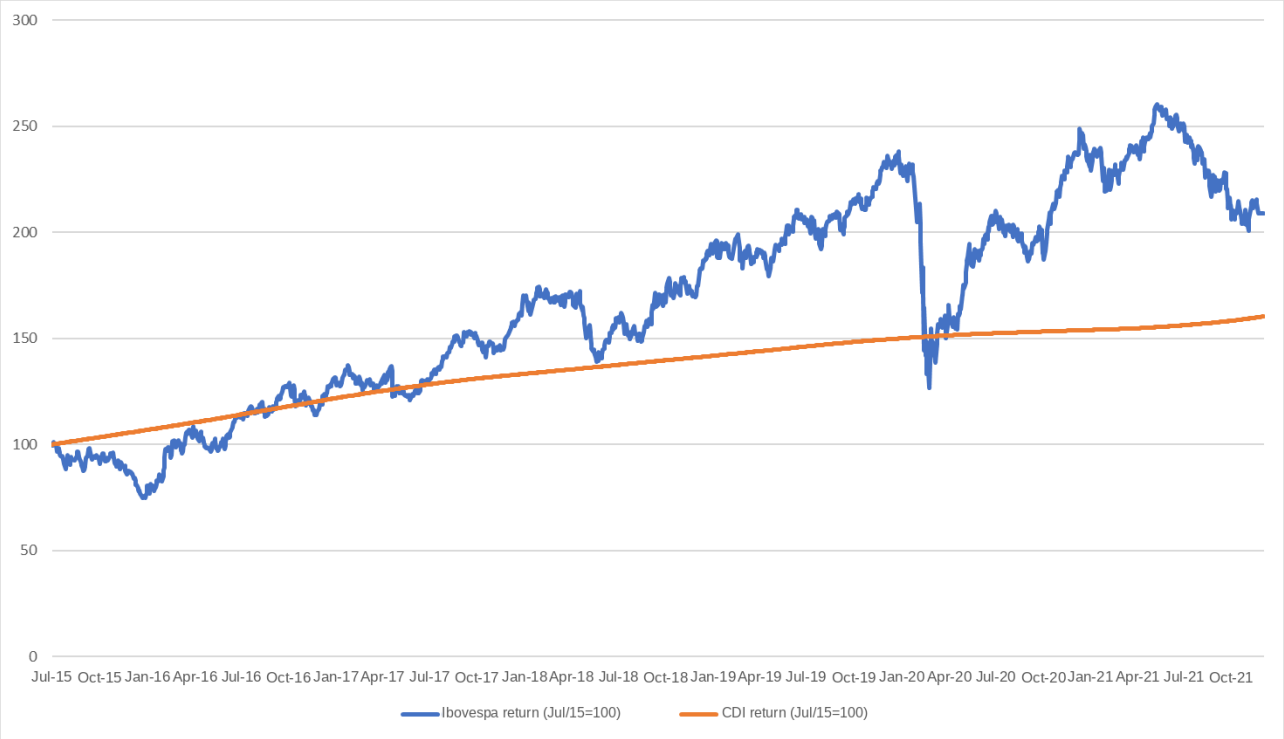
2021 was also marked by a sharp rise in the Selic rate. The benchmark interest rate of the Brazilian economy went from 2.0% at the beginning of the year to 9.25% at the end of the year, and the trend is for the rate to keep rising at the Central Bank's next meetings. This 7.25% increase in interest rates over a single year is the largest since the Real Plan.

Given this scenario of higher interest rates, fixed income has become attractive to investors again, which led many to ask us: "Why invest in stocks now, given that I can already get a very attractive return in fixed income, without risk?"

Our view is that it is precisely in scenarios of higher interest rates that investors should increase their equity investments.

To illustrate this point, let us first focus on the historical evidence. Six years ago, in Jul/15, the Selic rate reached 14.25% per year and remained at that level for more than a year, until Oct/16. This 14.25% rate is undoubtedly very attractive and led many investors to concentrate their investments in fixed income. The result: an investor who had kept his money invested in the CDI from July 2015 to December 2021 would have earned a return of 60%, that is, an annual return of 7.7% p.a. Keeping this money in the stock market, the investor would have earned a return of 109% (12.2% p.a.). A considerably higher return, even taking into account that we had an impeachment, a truckers' strike and a pandemic during this period.

Chart 2 – CDI vs. Ibovespa returns (Jul/15 – Dec/21)



The stock market's superior performance during this period is not an isolated event. We compared the returns of fixed income and equities over several time windows, and considered the interest rate scenario in each of these periods. The data in the table below, which show the return obtained from an investment in fixed income (CDI) or equities (Ibovespa) in the five years following historical highs or lows of the Selic rate, make the conclusion very clear: the best times to invest in stocks are precisely when the Selic is highest (gray rows in the table)!

Table 1 – CDI vs. Ibovespa returns in various interest rate scenarios

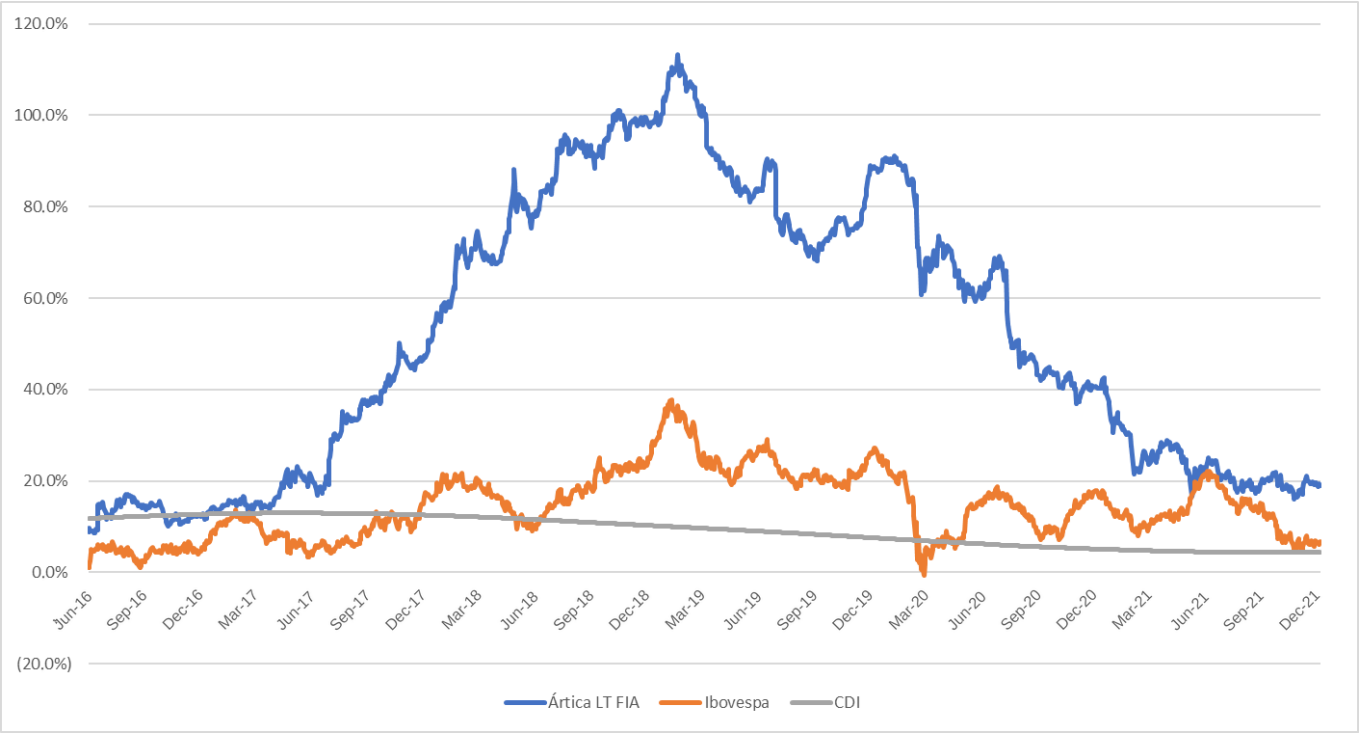
Date	Selic rate	Selic rate high or low	Annualized CDI return over the following 5 years	Annualized Ibovespa return over the following 5 years	Ibov vs. CDI
16/01/2001	15.25%	Low	18.9%	16.9%	(2.0%)
19/02/2003	26.5%	High	16.7%	43.5%	26.7%
14/04/2004	16.0%	Low	14.7%	15.3%	0.6%
18/05/2005	19.75%	High	12.9%	19.6%	6.6%
10/10/2012	7.25%	Low	11.2%	5.6%	(5.5%)
29/07/2015	14.25%	High	9.0%	16.0%	7.0%
05/08/2020[2]	2.0%	Low	3.7%	1.4%	(2.3%)

And why does this happen?

The main reason is simply a matter of price. In periods of high interest rates, stocks tend to become cheaper and, as a result, it is natural for stock market returns in the following years to be higher. The opposite happens in scenarios of lower interest rates.

Does this mean, then, that we should avoid stocks when interest rates are low? Not avoid them, but pay twice as much attention to maintaining the discipline of buying stocks only when prices are truly good. With this discipline, investing in stocks can outperform fixed income both when interest rates are low and when they are high. As the chart below shows, since our founding, Ártica LT FIA has always delivered returns above those of the CDI and the Ibovespa over 3-year windows.

Chart 3 – Annualized returns over 3-year windows (Ártica LT FIA vs. Ibovespa vs. CDI)



[2] Returns shown cover the period from Aug/20 to Dec/21

To our investors

As we have many new investors this year, it is worth remembering that our team is always available to answer questions about returns, explain details about our investments, or even to receive suggestions and ideas you would like to share. Please feel free to send us an e-mail at **investimentos@articainvest.com.br** or call **+55 11 3707-1890**, and we will reply promptly and with the greatest pleasure.

We take this opportunity to wish everyone an excellent 2022!

Best regards, **Ártica Asset Management Team**

Fund characteristics

ÁRTICA LONG TERM FUNDO DE INVESTIMENTO DE AÇÕES (the "Fund"), managed by Ártica Gestão de Recursos Ltda., is an equity investment fund regulated by CVM Instruction 555/2014. CNPJ: 18.302.338/0001-63

Target audience

The Fund is intended exclusively for qualified investors (under CVM Instruction 555/2014) seeking long-term-focused returns.

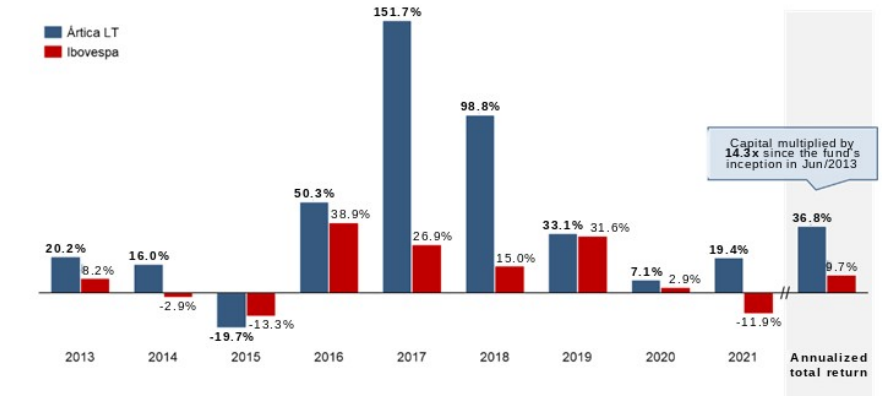
Fund objective

The Fund's objective is to provide its unitholders, over the medium and long term, with capital gains by investing its resources primarily in the stock market, without pursuing a high correlation with any specific equity index available.

ANBIMA classification	Equities (Free)
Manager	Ártica Gestão de Recursos Ltda.
Administrator / custodian	BTG Pactual Serviços Financeiros S.A. DTVM
Minimum investment	R$20.0 thousand
Additional investment	R$1.0 thousand
Minimum balance	R$10.0 thousand
Management fee	2% p.a.
Performance fee	20% of excess return over the Ibovespa (high-water mark)
Subscription conversion	D + 1 (business day)
Redemption conversion	D + 89 (calendar days)
Settlement	D + 1 (after conversion)
Taxation (income tax)	15% of gains upon redemption (no come-cotas)

Current net assets	R$155.3 million
12-month average net assets	R$136.8 million
Cumulative return	1,335.2%
12-month return	19.4%
36-month return	70.4%

Annual return



Monthly return

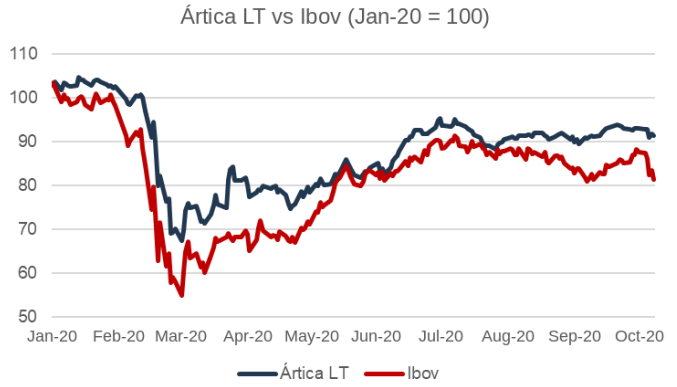
		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Year	Cumulative
2013	Ártica LT	-	-	-	-	-	2.2%	6.7%	(5.2%)	8.8%	8.3%	(1.0%)	(0.3%)	20.2%	20.2%
	Ibovespa	-	-	-	-	-	(11.3%)	1.6%	3.7%	4.7%	3.7%	(3.3%)	(1.9%)	8.2%	8.2%
2014	Ártica LT	(4.5%)	2.9%	2.2%	(0.9%)	4.2%	7.7%	1.2%	0.9%	(1.2%)	(1.2%)	6.2%	(1.7%)	16.0%	39.4%
	Ibovespa	(7.5%)	(1.1%)	7.1%	2.4%	(0.8%)	3.8%	5.0%	9.8%	(11.7%)	1.0%	0.2%	(8.6%)	-2.9%	5.0%
2015	Ártica LT	(4.4%)	(3.6%)	3.4%	5.1%	1.3%	(4.2%)	(10.6%)	(2.9%)	0.2%	(8.7%)	0.5%	3.5%	-19.7%	12.0%
	Ibovespa	(6.2%)	10.0%	(0.8%)	9.9%	(6.2%)	0.6%	(4.2%)	(8.3%)	(3.4%)	1.8%	(1.6%)	(3.9%)	-13.3%	-8.9%
2016	Ártica LT	(9.7%)	2.8%	20.9%	4.7%	1.8%	(0.7%)	16.1%	7.8%	(0.3%)	(1.0%)	1.6%	0.6%	50.3%	68.3%
	Ibovespa	(6.8%)	5.9%	17.0%	7.7%	(10.1%)	6.3%	11.2%	1.0%	0.8%	11.2%	(4.7%)	(2.7%)	38.9%	26.5%
2017	Ártica LT	2.0%	3.7%	1.4%	2.6%	20.4%	1.7%	27.9%	9.4%	8.7%	8.9%	14.1%	(1.2%)	151.7%	323.7%
	Ibovespa	7.4%	3.1%	(2.5%)	0.7%	(4.1%)	0.3%	4.8%	7.5%	4.9%	0.0%	(3.2%)	6.2%	26.9%	60.5%
2018	Ártica LT	22.1%	23.9%	0.8%	2.4%	29.7%	(8.4%)	7.9%	5.1%	(7.8%)	6.5%	(4.7%)	0.9%	98.8%	742.3%
	Ibovespa	11.1%	0.5%	0.0%	0.9%	(10.9%)	(5.2%)	8.9%	(3.2%)	3.5%	10.2%	2.4%	(1.8%)	15.0%	84.6%
2019	Ártica LT	10.7%	(1.7%)	(3.4%)	(1.2%)	(5.7%)	(1.5%)	3.6%	1.0%	(7.8%)	14.0%	0.5%	25.0%	33.1%	1021.5%
	Ibovespa	10.8%	(1.9%)	(0.2%)	1.0%	0.7%	4.1%	0.8%	(0.7%)	3.6%	2.4%	1.0%	6.9%	31.6%	142.9%
2020	Ártica LT	2.7%	(4.2%)	(24.8%)	8.0%	0.2%	6.7%	9.9%	(2.9%)	(0.2%)	0.1%	12.2%	4.6%	7.1%	1,101.6%
	Ibovespa	(1.6%)	(8.4%)	(29.9%)	10.3%	8.6%	8.8%	8.3%	(3.4%)	(4.8%)	(0.7%)	15.9%	9.3%	2.9%	150.0%
2021	Ártica LT	(1.1%)	(1.5%)	8.1%	6.3%	7.8%	4.8%	(2.1%)	(1.3%)	(2.2%)	(1.6%)	(2.7%)	4.1%	19.4%	1,335.2%
	Ibovespa	(3.3%)	(4.4%)	6.0%	1.9%	6.2%	0.5%	(3.9%)	(2.5%)	(6.8%)	(6.7%)	(1.6%)	3.0%	(11.9%)	120.2%

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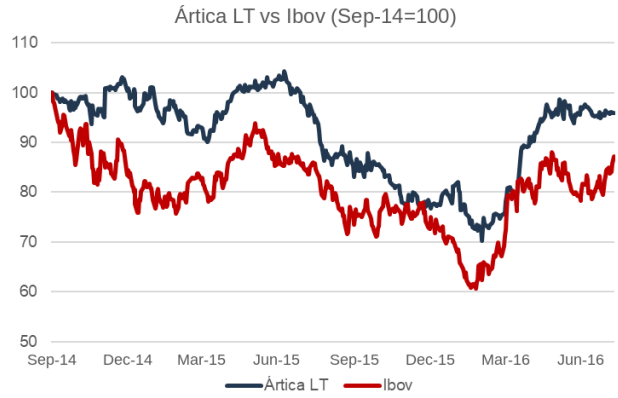
Gestão de Recursos

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Performance in crisis scenarios



Max drawdown Ártica LT: 34%
Max drawdown Ibovespa: 47%



Max drawdown Ártica LT: 30%
Max drawdown Ibovespa: 39%

	Ártica LT	Ibovespa
Volatility – since inception	23.6%	25.7%
Sharpe – since inception	1.26	0.18
Correlation (Ártica LT vs Ibov) – since inception	0.37	-
Volatility – 12 months	13.6%	20.7%
Sharpe – 12 months	1.16	(0.68)
Correlation (Ártica LT vs Ibov) – 12 months	0.71	-

Rolling 3-year returns



This material is intended solely to provide information and transparency regarding the management carried out by Ártica Gestão de Recursos, and does not constitute, and should not be construed as, an offer or solicitation to buy or sell any financial instrument or to participate in any specific business strategy. All opinions contained herein were prepared within the context and conditions prevailing at the time the presentation was edited and may change without notice. They also do not take into account the investment objectives, financial situation or specific needs of any particular investor.