

MANAGEMENT REPORT

1st Quarter 2012



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Disclosure of Past Performance

Edge Value FIA returned 5.27% in the first five months of 2012. In the same period, the Ibovespa decreased 3.99% and the FGV-100 increased 2.30%.

Since inception, in 2004, the accumulated return from the Clube San Francisco (currently Edge Value FIA) was 443.47%. In the same period, the returns from Ibovespa and FGV-100 were 150.32% and 245.26%, respectively.

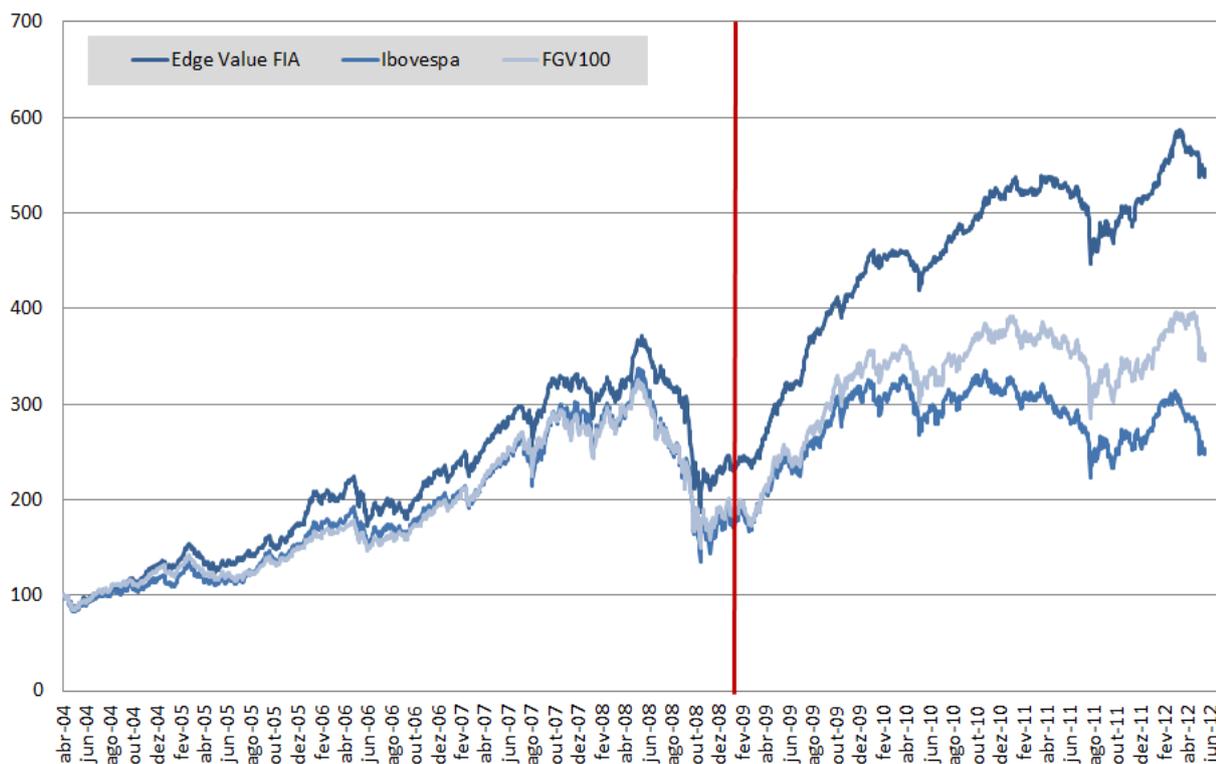
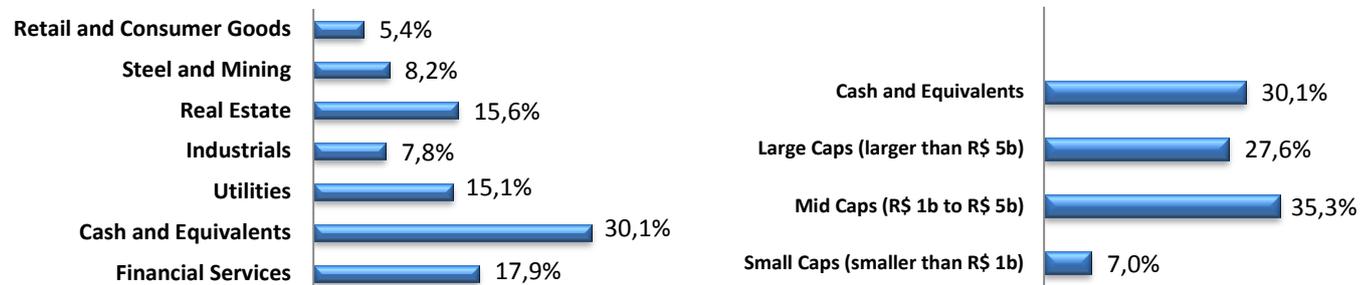
Since inception, in 2006, the accumulated return from the Clube Triumph (incorporated by the Edge Value FIA) was 298.35%. In the same period, the returns from Ibovespa and FGV-100 were 47.70% and 113.18%, respectively.

Period	Edge Value FIA	FGV100	IBOVESPA
May 2012	-3.65%	-12.57%	-11.86%
April 2012	-2.78%	1.40%	-4.17%
March 2012	3.63%	2.41%	-1.98%
February 2012	5.45%	5.22%	4.34%
January 2012	2.85%	7.09%	11.14%
2012 YTD	5.27%	2.30%	-3.99%
2011	-1.90%	-10.58%	-18.11%
2010	18.99%	10.22%	1.05%
2009	85.79%	87.65%	82.66%
2008	-27.18%	-34.09%	-41.22%
2007	40.30%	40.06%	43.68%
2006	33.13%	31.55%	33.73%
2005	29.24%	15.15%	27.06%
Since Inception (15/4/2004)	443.47%	245.26%	150.32%
Annualized Return	25.87%	20.28%	16.78%
Total Assets	R\$ 47,645,650		

Data from 15/04/2004 to 13/01/2009 refers to the Clube de Investimento Edge Value (the former Clube San Francisco and incorporator of the Clube Triumph). The conversion date for the Edge Value FIA was 14/01/2009.

Portfolio Composition and Performance

On May 2012, the portfolio was composed of stocks from 11 companies, divided as follows:



(1) The red line represents the conversion date of the Clube de Investimentos San Francisco into the Edge Value FIA (14/01/2009).

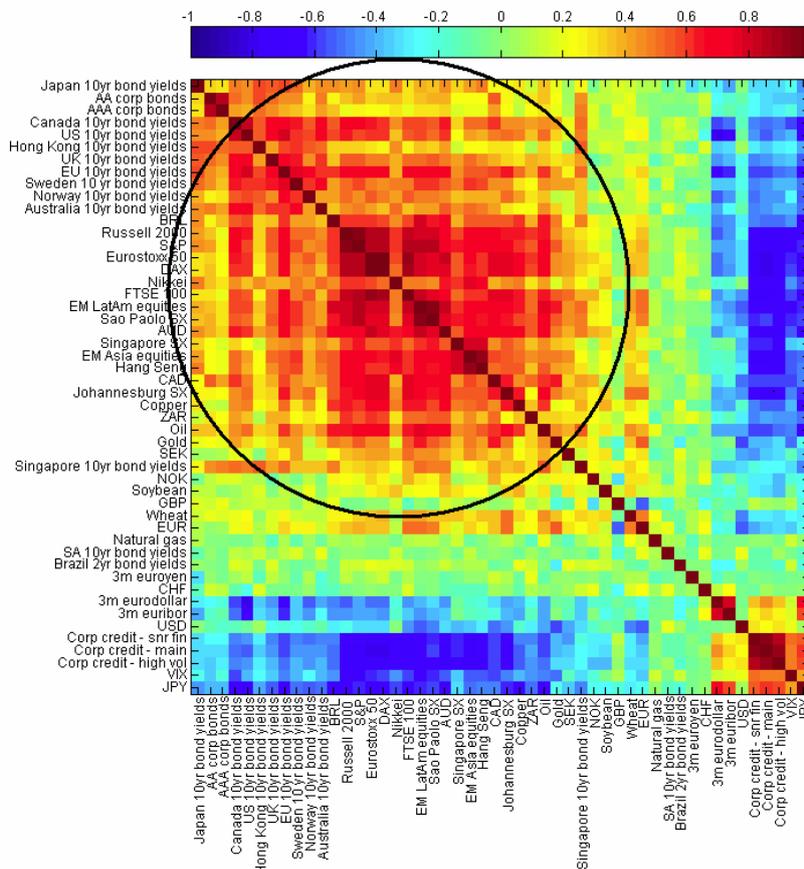
Comments

Markets

The global economic outlook continues to be significantly challenging. The absence of sovereign debt assets with real positive yield is forcing investors to seek returns in risky assets, even with all the uncertainty with respect to the future of the Euro region.

Confronted with this dilemma, since 2009 the market has been acting on a risk-on/risk-off fashion, either seeking profitability, or searching for a safe haven – if one still exists.

This behavior increases both the volatility and the correlation between the asset classes. This can be seen in the matrix alongside, which was prepared by the research department of HSBC¹.



In Brazil, the price of stocks followed the world stock exchanges. 2012 began with a strong appreciation of the Ibovespa, which reached 20% at the beginning of March, followed by an equally intense fall. Up to the end of May, the index had accumulated a loss of almost 4%.

Our fund has also experienced a volatile start of the year, even though this was softened by our cash position and by the utilities portfolio. By the end of May, we had accumulated a positive return of about 5%.

Looking forward, the maintenance of the current portfolio should act as an anchor, reducing the correlation of the fund with the markets, independent of the direction. In other words, we estimate that we will obtain a lower performance to that of Ibovespa in a possible accelerated price recovery. On the other hand, the stability of the cash flow of our portfolio offers greater protection in times of falling prices. Finally, we have a large cash position that allows us to take advantage of stress situations, should they occur.

¹ See <http://www.research.hsbc.com/midas/Res/RDV?p=pdf&key=2Q70z09rbF&n=282506.PDF>

Companies

Divestments – Providência and Contax

During the first five months of the year, we completely divested from Providência and Contax.

Providência was an investment made by the fund in October 2009. Even in a challenging sector, where the pricing power tends to be reduced, Providência had a leading position in the growing market of non-woven disposables. We bought the business below the reproduction value of assets and with a high free cash flow yield, giving us sufficient margin of safety to counteract any possible negative surprises.

In the three years as stockholders, we have become more aware of the company's strategy, the management team and the competitive dynamics of the industry, which was more aggressive than we estimated. On several occasions, in exchange for a temporary gain in market share, competitors were willing not to pass on the price variations of the polypropylene to the end product. This forced Providência to export or sell in the local market with smaller margins.

We completely exited the investment at the beginning of May 2012. During our investment period, the company didn't increase the intrinsic value of the business. Our compound return of 14.9% per year was practically obtained through dividends and by the difference in the purchase and sale multiple.

Contax is an older investment, which dates back to the time of the investment clubs. In the almost five years that we were stockholders, the company grew under the competent management of James Meaney and Michel Sarkis, from an income of R\$ 1.4 billion to R\$ 3.0 billion. This growth was achieved through investments – organic and acquisitions – with satisfactory returns, adding value to the business (possibly with the exception of the Dedic acquisition).

Recently, we decided to divest from the business. We believe that Contax (and, more generically, the call center sector in Brazil) faces a substantial challenge caused by the shortage and increasing cost of labor in Brazil, which adds to the inflexibility of the contracting parties, who, using their economic power, resist accepting the passing on of these expenses. We will continue to closely monitor this industry but, for the time being, only as observers. The total compound return from our investment in Contax was 33.5% per year.

Comgás – Transfer of Control to Cosan

In December 2011, Comgás made a Public Announcement regarding its interest to migrate to the Novo Mercado listing segment, through the conversion of each preferred stock into one common stock. We believe that this move would provide more liquidity to their stock and allow the controlling shareholder – BG Group – to partially sell its holding in the market, in line with its global strategy of divestments in downstream assets in order to provide funding for investments in oil and gas exploration.

We considered that the migration to the Novo Mercado would be positive in terms of corporate governance and the liquidity of the stocks. Because our fund invests in both the common and the preferred stock, the loss of the 10% greater dividend in the PNs appeared to be more than compensated by the gain in liquidity, tag along of 100%, etc.

This process was, however, being delayed by the opposition of a substantial minority shareholder. Meanwhile, it became known that BG had negotiated the sale of the control of Comgás to Cosan, the largest Brazilian ethanol player. At the end of May, a stock purchase agreement was signed, transferring 71.9% of the total capital of the company to Cosan.

At the agreed price of R\$ 47.25 per share, we believe Cosan has made an excellent deal, paying much less than our estimated intrinsic value of Comgás. However, the impact for the minority stockholders of Comgás is less obvious. Although we are still digesting the strategic rationale of the transaction, some comments are pertinent:

- We believe that, with the exception of some cost adjustments, the daily routine of the company will not suffer significant alterations. Since its privatization in 1999, Comgás has developed robust technical and management bodies, which have managed the company efficiently and, therefore, should be maintained.
- Shell, a minority member of the control block of Comgás, will remain as a direct shareholder of the company for at least three years, with the possibility of converting its stake into Cosan shares from that date on. In our opinion, the fact that Shell did not exercise its tag along rights as established in the shareholders' agreement (i) indicates that the price of the transaction somewhat undervalues Comgás and (ii) significantly reduces the risks and uncertainties associated with the arrival of a new controlling company.
- It is probable that the dividend policy will be maintained given that Cosan will use the cash flow from Comgás to pay for the financing of the acquisition, which exceeds R\$ 3 billion. With this, the dividend yield should be close to 8% per year.

Comgás represents 6.5% of the portfolio of the Edge Value FIA.

Yours sincerely,

Edge Investimentos