

## FUND MANAGER'S LETTER – AUGUST 2016

### AZ Quest Luce

In August, the **AZ Quest Luce** fund returned 109% of the CDI interbank lending rate, again well above its targeted long-term return, and for the same reasons in July. Although we still have a very conservative portfolio (55% of NAV allocated in cash and LFTs), we obtained good results in our portfolio of debentures and LFs (mainly subordinated LFs).

The same dynamics observed in July remained in place during August, a month that saw strong market demand for bank assets, mainly those with higher yields (in this case, subordinated LFs), reflecting the absence of new issuances by banks. We continue to see a supply/demand imbalance in the secondary market, triggering a significant reduction in the trading rates and mark-to-market of these assets.

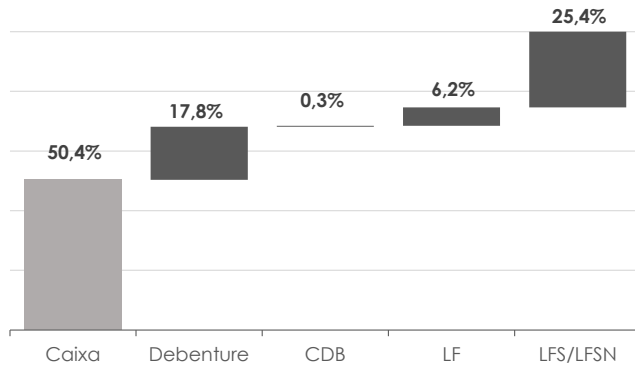
The market also upped its buying activity in other types of credit assets, ratifying our view that this market will gradually start attracting investor attention again. We also analyzed three primary offers in the month, of which we entered into only one of them, which was subscribed at the start of September. We remain highly active in the secondary market.

### RETURN ATTRIBUTION

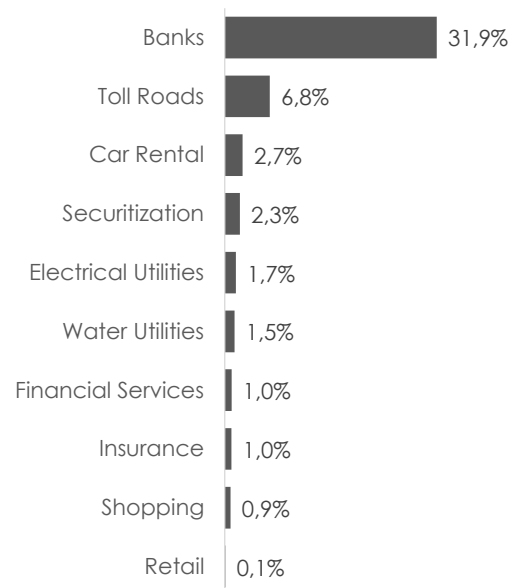
#### Performance Attribution - YTD

| AZQUES LUCE                   | %Average Net Assets | Long          | Short       | %CDI          | Value Added  | Value Added Breakdown |              |             |
|-------------------------------|---------------------|---------------|-------------|---------------|--------------|-----------------------|--------------|-------------|
|                               |                     |               |             |               |              | Carry                 | Capital Gain | Trade       |
| CDB                           | 0,9%                | 0,9%          | 0,0%        | 105,7%        | 0,1%         | -0,4%                 | 0,5%         | 0,0%        |
| LF                            | 6,5%                | 6,5%          | 0,0%        | 107,3%        | 0,5%         | 0,3%                  | 0,2%         | 0,0%        |
| LFS                           | 7,7%                | 7,7%          | 0,0%        | 110,7%        | 0,9%         | 0,5%                  | 0,4%         | 0,0%        |
| LFSN                          | 11,9%               | 11,9%         | 0,0%        | 144,8%        | 5,9%         | 1,7%                  | 4,2%         | 0,0%        |
| DEB                           | 19,7%               | 19,7%         | 0,0%        | 127,3%        | 6,0%         | 3,3%                  | 1,6%         | 1,1%        |
| CAIXA                         | 53,4%               | 53,4%         | 0,0%        | 99,7%         | -0,2%        | -0,2%                 | 0,0%         | 0,0%        |
| <b>TOTAL</b>                  | <b>100,0%</b>       | <b>100,0%</b> | <b>0,0%</b> | <b>113,3%</b> | <b>13,3%</b> | <b>5,2%</b>           | <b>6,9%</b>  | <b>1,2%</b> |
| Funds Expenses(MT)            |                     |               |             |               |              | <b>-0,7%</b>          |              |             |
| <b>LUCE MT</b>                |                     |               |             |               |              | <b>112,6%</b>         | <b>12,6%</b> |             |
| Funds Expenses and fees (FIC) |                     |               |             |               |              | <b>-3,6%</b>          |              |             |
| <b>LUCE FIC</b>               |                     |               |             |               |              | <b>109,0%</b>         | <b>9,0%</b>  |             |

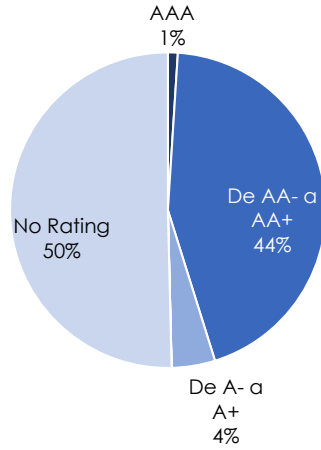
### Portfolio Breakdown



### Sector Breakdown



### Rating Breakdown



## AZ Quest Altro

In August, our **AZ Quest Altro** fund obtained a return of 121% of the CDI interbank lending rate, above our long-term targeted return. Although we have a conservative portfolio (24% of NAV allocated in cash and LFTs), we obtained good results in almost all of the fund's sub-portfolios, especially the portfolios of LFs (mainly subordinated LFs), hedged debentures and inflation, with the latter representing a new development in the fund (see *more below*).

The reasons that led to a good performance in the portfolio of LFs are the same already explained in the text dedicated to the AZ Quest Luce fund. In the portfolio of hedged bonds, the bulk of the result came from a strong narrowing of spreads in almost all the assets of this strategy. We took advantage of the opportunity to increase the size of the strategy of hedged bonds during the month, due to the possibility of adding new names at attractive prices.

In August, we also opted for a small position in real interest rates (always via credit assets) and in line with the call of our macro area. We thus chose an asset that, in addition to having a duration proposed by the call of our macro team, also offered a relevant credit spread (mainly compared to the spread of the assets in CDI of the same issuer). At the end of the month, our returns could be broken down as follows:

- (i) The gains from our exposure to real interest rates, albeit positive, came in below the levels we hoped for; and
- (ii) A large part of our overall returns came from the narrowing of credit spreads.

Since this was the first time we adopted this type of exposure, we believe it is important to elaborate this explicative paragraph, highlighting the reasons that led us to adopt this position, always seeking to add an asymmetric return in relation to the risk, and with value creation for our fund shareholders.

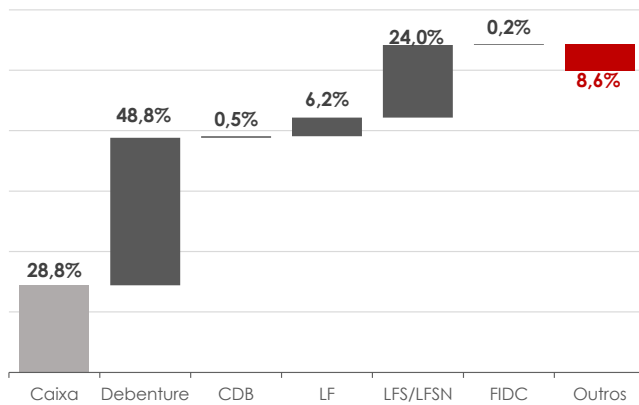
The credit market has shown stronger demand for assets and for more risk, partly ratifying our view that this market will gradually start attracting the attention of investors again. We also analyzed three primary offers in the month, of which we only entered into one offer, which was subscribed at the start of September. This fund was also highly active in the secondary market, both in terms of buying and selling.

### RETURN ATTRIBUTION:

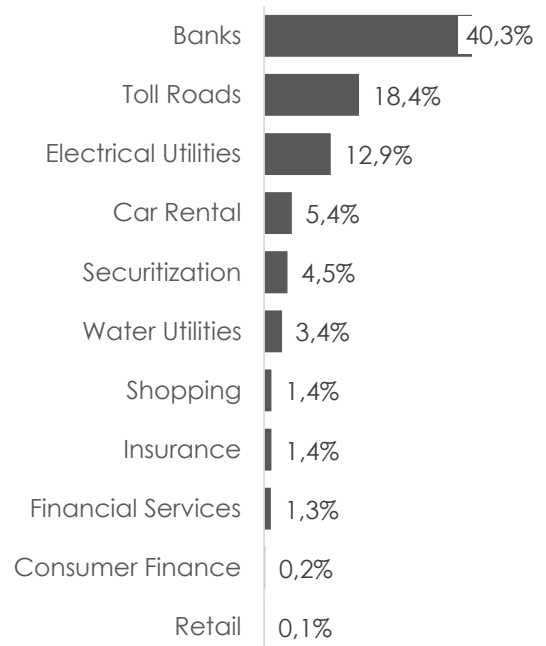
#### Performance Attribution - YTD

| AZQUEST ALTRO                 | %Average Net Assets | Long          | Short        | %CDI          | Value Added   | Value Added Breakdown |              |              |
|-------------------------------|---------------------|---------------|--------------|---------------|---------------|-----------------------|--------------|--------------|
|                               |                     |               |              |               |               | Carry                 | Capital Gain | Trade        |
| CDB                           | 0,8%                | 0,8%          | 0,0%         | 106,3%        | 0,05%         | 0,04%                 | 0,01%        | 0,00%        |
| LF                            | 5,2%                | 5,2%          | 0,0%         | 109,7%        | 0,54%         | 0,45%                 | 0,04%        | 0,06%        |
| LFS                           | 7,3%                | 7,3%          | 0,0%         | 111,2%        | 0,88%         | 0,52%                 | 0,31%        | 0,06%        |
| LFSN                          | 12,9%               | 12,9%         | 0,0%         | 143,9%        | 6,09%         | 1,79%                 | 4,26%        | 0,04%        |
| Debentures                    | 42,4%               | 42,4%         | 0,0%         | 131,8%        | 14,59%        | 7,55%                 | 5,02%        | 2,01%        |
| Debentures hedge              | 0,2%                | 4,5%          | -4,3%        | 2939,4%       | 5,96%         | 0,87%                 | 4,93%        | 0,16%        |
| Inflação Livre                | 0,3%                | 0,3%          | 0,0%         | 173,0%        | 0,22%         | 0,06%                 | 0,33%        | -0,17%       |
| FDC                           | 0,4%                | 0,4%          | 0,0%         | 120,2%        | 0,10%         | 0,09%                 | 0,00%        | 0,00%        |
| Caixa                         | 25,7%               | 25,7%         | 0,0%         | 99,5%         | -0,14%        | -0,14%                | 0,00%        | 0,00%        |
| Outros <sup>1</sup>           | 4,9%                | 4,9%          | 0,0%         | 96,9%         | -0,16%        | -0,16%                | 0,00%        | 0,00%        |
| <b>TOTAL Ativos</b>           | <b>100,0%</b>       | <b>104,3%</b> | <b>-4,3%</b> | <b>128,1%</b> | <b>28,1%</b>  | <b>11,1%</b>          | <b>14,9%</b> | <b>2,2%</b>  |
| Funds Expenses(MT)            |                     |               |              |               | -1,1%         |                       |              |              |
| <b>ALTRO MT</b>               |                     |               |              |               | <b>127,1%</b> |                       |              | <b>27,1%</b> |
| Funds Expenses and fees (FIC) |                     |               |              |               | -10,4%        |                       |              |              |
| <b>ALTRO FIC</b>              |                     |               |              |               | <b>116,7%</b> |                       |              | <b>16,7%</b> |

### Portfolio Breakdown



### Sector Breakdown



### Rating Breakdown

