LETTER FROM THE FUND MANAGER – October 2016

1. AZ QUEST LUCE

In October, the AZ Quest Luce fund returned 110.2% of the CDI interbank lending rate, again well above its targeted long-term return, and for the same reasons seen in most months this year. Despite maintaining a very conservative portfolio (cash and LFTs are 56.0% of our NAV), we obtained good results in our debentures portfolio, while the main performer was our portfolio of LFs, mainly junior LFs.

Due to political and economic events in the last semester, market confidence improved slightly, securing continued demand for private credit assets. But the number of primary issuances still wasn't sufficient to meet all the demand, causing yields to narrow in the secondary market.

We also analyzed eight primary offers in the month, entered four of them and were allocated in three operations. We were also very active in the secondary market, mainly at the buying end.

2. AZ QUEST ALTRO

In October, our AZ Quest Altro fund yielded 117.7% of the CDI, above its targeted long-term return. Although we have a conservative portfolio (cash + LFTs = 26.2% of NAV), we obtained good results in almost all fund sub-portfolios, especially the portfolios of LFs (mainly junior LFs), hedged debentures and inflation.

The drivers that secured a good performance by our portfolio of debentures and LFs are the same ones already explained in the text dedicated to the AZ Quest Luce fund. We saw a similar dynamic in the portfolio of hedged debentures and inflation. We reduced the gross exposure of our hedged debentures strategy during the month, since in our opinion some assets were already at a high price, and keeping them in our portfolio no longer makes sense.

Throughout the month, we altered the exposure of our inflation portfolio. At the start of October, we halved our position and kept things that way until the end of the month, when – after a small correction in the yield curve – we decided to return to our exposure at the start of the month.

We analyzed eight primary offers in the month, entered four of them and were allocated in three. This fund was also very active in the secondary market, at both ends (buying and selling).

Due to the political and economic events in the last semester, with confidence signaling an improvement, the credit market witnessed stronger demand for assets and for more risk as well, ratifying our view that this market will gradually start to attract investor attention again. But the number of primary issuances still wasn't sufficient to meet all the demand, causing yields to narrow in the secondary market. This improved sentiment is also evidenced by the substantial number of new issuances in the November pipeline (nine issuances so far), as well as those already carried out in October and September.