

MONTHLY BULLETIN – APRIL 2017

Recent months have shown a recurring scenario of gradual economic recovery, decline in inflation and interest rates, and discussions on the government's capacity to implement the reform agenda amid Operation Car Wash accusations.

April was no different. February industrial production rose 0.1%, below the 0.7% expected by the market, while March IPCA inflation was 0.25%, accumulating 4.57% in 12 months, indicating that there is lots of room for the Central Bank to continue with its interest rate easing cycle.

While, on the economic side, the month didn't bring any new developments, the same cannot be said about the political scenario. We finally saw the release of the eagerly-anticipated "Fachin List", which authorized 74 inquests and put most politicians in the firing line of Operation Car Wash. There are still doubts on the real impact on the progress of the reforms, especially the Pension Reform. However, the government has clearly shown strength in its negotiations with Congress, despite some isolated setbacks, such as vetoing the requirement to increase the pension contribution of civil servants from 11% to 14%, as a counterpart for the debt-ridden states.

Although some "allied" parties have positioned themselves against the proposal, the Labor Reform was approved with 296 votes, a number just below the 308 necessary to approve the Pension Reform. The text ends the obligatory trade union tax and eases Brazil's labor laws in several points, including the duration of the working day and enabling negotiations between employees and employers to prevail over the law.

April also saw the release of the Pension Reform text of rapporteur Arthur Maia, a "watered down" text, but which maintains the core of the original proposal. The main concession came from the reduction in the minimum retirement age for women, from 65 to 62 years.

The need to put Brazil back on a growth path, and the population's enormous disapproval of tax hikes as an alternative to handle the fiscal question, especially considering the approval of the spending cap amendment, leads us to expect the reform to be approved by Congress.

The US economy is showing signs of weakening, with automakers reporting subpar sales, while job creation in the labor market is below market expectations.

The FED continues to signal plans to increase interest rates two more times in 2017, whilst showing in its meeting minutes that it is already discussing the reduction of its balance sheet, currently at US\$4.5trn. Trump is also exploiting the instability in North Korea and Syria to become more aggressive on the international stage, in the search for greater popularity and strength in Congress.

Due to the difficulty in implementing his most controversial campaign promises, Trump should also focus on measures to speed up economic growth. The general outlines of the fiscal plan feature a reduction from 35% to 15% in taxes on corporate profits and lowering the tax brackets for workers. Trump will likely encounter resistance in Congress, since many Congressmen, including republicans, oppose the country's mounting deficit.

The result of the first round of the French elections brought global relief, with the victory of the center and pro-Euro candidate Emmanuel Macron, who will run against extreme-right candidate Marine Le Pen in the second round. If Macron wins, it will be an important factor in reducing political risk in Europe. We also highlight the decision of the BoJ to maintain its monetary policy, reinforcing the point that the reduction in stimuli will only occur when inflation reaches the 2% target.

EQUITIES STRATEGY

In a month of relative stability in equities (Ibovespa: +0,64%), our funds posted gains, especially the AZ Quest Small Mid Caps, which rose 1.75%.

The main contribution came from the Retail sector, with strong gains in our main positions. We also obtained good results in the homebuilders sector. We highlight the success in the auction of new transmission lines, indicating an improvement in the business environment of the electricity sector and major potential for private investment in good projects in Brazil.

The Steel and Mining sectors were the main negative contributors to our funds' performance, reflecting the decline in iron ore prices in China, which fell to the lowest level in 5 months. Despite the upgrade by Moody's, Petrobrás shares fell in the month and also drove losses in our funds.

The bulk of our exposure is still in domestic cyclical companies, with greater financial leverage and in some global cyclical sectors. Due to our optimism on a cyclical recovery in the Brazilian economy, we are strongly increasing our exposure to Retail and, to a lesser extent, to Financial Services.

MACRO STRATEGY

In a month of global risk-off and consolidation of the trend of decline in inflation in Brazil, our Macro funds posted mixed results, with gains in interest rate positions and losses with hedges.

The real yield curves reverted the narrowing movement that had driven positive contributions in recent months. As a result, we incurred losses in our NTN-Bs positions in the belly of the curve. We did, however, obtain gains from our position in short nominal interest rates, due to the expected strengthening of the monetary easing cycle by the Central Bank.

We also suffered losses in our hedge positions for the external scenario, with long positions in 2Y spread over Treasury and short positions in 10Y Treasury.

CREDIT STRATEGY

The funds have slightly underperformed their long-term objectives in April. The result was due to (i) a lower contribution from the subordinated LF book, (ii) the greater exposure to cash and (iii) mainly from a lower return on the debentures portfolio due, on average, to the widening of credit spreads, due to technical movements after a long period of appreciation.

The primary emission market was very strong, maintaining the trend started in March and should maintain this structural traction, especially if the pension reform is approved. This is important because the decision to close temporarily the AZ Quest Altro allowed a portfolio readjustment, since the capture speed exceeded the allocation capacity of new assets.

Despite the perspective of improving the macro scenario, we maintained the conservative profile of the portfolios, attentive to the appropriate moment to act in that direction.

ARBITRAGE STRATEGY

For the 5th consecutive month, the Legan Low Vol outperformed its benchmark, gaining 0.99% (125.32% CDI). We obtained gains in the main strategies of the fund, mainly Financing and Reversal in VALE5. We also highlight the excellent result in Cash&Carry and reversal in PETR4. The AZ Legan Termo gained 0.83% (105.06% CDI), after conclusion of the administrator transfer process.

RENTABILIDADES

| Fundos | Início | Rentabilidades | | % do Benchmark | |
|---|-----------|----------------|--------|----------------|-----------|
| | | abr/17 | 2017 | abr/17 | 2017 |
| AZ QUEST AÇÕES FIC FIA | 01-jun-05 | 1,05% | 6,53% | 0,4 p.p. | -2,1 p.p. |
| A QUEST SMALL MID CAPS FIC FIA | 30-dez-09 | 1,75% | 15,99% | -1,7 p.p. | -4,1 p.p. |
| AZ QUEST TOP LONG BIASED FIC FIA | 18-out-11 | 0,59% | 15,93% | -0,3 p.p. | 6,8 p.p. |
| AZ BRASIL FIA | 02-mai-16 | -1,28% | 5,50% | -1,9 p.p. | -3,1 p.p. |
| AZ QUEST EQUITY HEDGE FIM | 30-nov-07 | 0,67% | 4,30% | 85% | 112% |
| AZ QUEST TOTAL RETURN FIA | 23-jan-12 | 0,65% | 4,91% | 83% | 128% |
| AZ QUEST YIELD | 20-set-12 | 0,79% | 5,77% | 100% | 150% |
| AZ QUEST MULTI FIC FIM | 13-set-13 | 0,44% | 7,55% | 56% | 196% |
| AZ QUEST MULTI MAX FIC FIM | 24-fev-17 | - | - | - | - |
| AZ QUEST LUCE | 15-dez-15 | 0,79% | 4,21% | 100% | 109% |
| AZ QUEST ALTRO | 11-dez-15 | 0,76% | 4,46% | 97% | 116% |
| AZ LEGAN VALORE | 28-abr-14 | 0,77% | 4,15% | 98% | 108% |
| AZQ DEBENTURES INCENTIVADAS | 06-set-16 | 0,23% | 3,34% | 0,3 p.p. | 0,9 p.p. |
| ICATU SEG AZ QUEST PREVIDENCIÁRIO | 22-abr-15 | 0,84% | 3,73% | 0,1 p.p. | -1,5 p.p. |
| AZ QUEST ICATU PREV RENDA FIXA | 09-set-16 | 0,71% | 4,17% | 90,59% | 108,40% |
| LEGAN LOW VOL | 28-nov-08 | 0,99% | 3,09% | 125,61% | 111,41% |
| AZ LEGAN TERMO | 03-ago-15 | 0,83% | 2,71% | 104,61% | 101,09% |
| AZIMUT SOBERANO | 02-mai-16 | 0,74% | 2,61% | 93,48% | 95,61% |

| Índices | abr/17 | 2017 |
|-------------------|--------|--------|
| CDI | 0,79% | 3,85% |
| Dólar (Ptax) | 0,95% | -1,86% |
| Ibovespa - Fech | 0,64% | 8,59% |
| IGPM | -0,21% | -0,84% |
| IBX-100 | 0,88% | 9,09% |
| Indice Small Caps | 3,41% | 20,05% |

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