

## MONTHLY BULLETIN – FEBRUARY 2017

February consolidates the political-economic scenario being mapped out in recent months. An economy with rising inflation and timid signs of recovery, a strong government in Congress, but with growing unpopularity amid an external scenario that remains favorable but shrouded in uncertainty.

The elections of the Lower House and Senate chairmen and the approvals of Moreira Franco and Alexandre Moraes demonstrate the government's political strength. On the one hand, this was perceived by public opinion as a sign that the government plans to obstruct the Car Wash investigations and the fight against corruption. Although restricted to a few groups, the chorus against the government gained media traction during the Carnival, and should be heard again in the public protests planned for March.

Supported by the economic establishment, the government continues with its agenda of reforms. Looking to boost the construction sector, a major employer, the government expanded the MCMV housing program and raised the price ceiling of homes that can be acquired using SFH funds. It also announced the rules for the disbursement of FGTS funds, in order to reduce the population's indebtedness and boost consumption.

Despite the approval of several economic measures, economic activity remains weak. Unemployment is still high and the chaotic financial situation of states is generating social instability, preventing any improvement in the President's popularity ratings.

On the other hand, we saw some data signaling that the deep recession may finally be close to an end. Industry is still on a life support machine, but production in some sectors already signals a mild recovery (PIM rose 2.3% MoM in December). Interest rate cuts and the record harvest should boost GDP growth in 2017. We also flag the positive surprise with the 2016 primary result (deficit of R\$155.8bn, below the budget target), reflecting lower-than-expected spending.

Inflation continues surprising to the downside, enabling the Central Bank to cut interest rates by 75bps to 12.25% p.a. The outlook for 12-month IPCA inflation below 4% in 3Q17 and inflation below the target midpoint in 2018 pave the way for even stronger interest rate cuts or even a reduction in the 2019 IPCA target, as suggested by the Central Bank chairman.

In the US, Trump ended his first month of government involved in controversy, especially the scandal that brought down his Homeland Security Secretary, Michael Flynn, due to talks with the Kremlin that weren't informed to authorities – and with a clear message that his actions will be limited by the US political system. The first example came from the Judiciary, where the Court of Appeals vetoed the decree prohibiting the entry of citizens from seven Muslim-majority countries into the US. Pressured, Trump took a step back and announced he will send a new text to Congress.

Despite a more moderate discourse in Congress, Trump is expected to continue with his policy of defending US jobs and deregulating the economy, as in the case of the revision of the financial system reform, via the Dodd-Frank law, to stimulate lending by banks.

Another source of opposition came from the FED, which made it clear that it will work to curb any inflationary pressures from an expansionary fiscal policy and USD devaluation, measures supported by the government team.

Industrial PMIs in China and Europe (highest level since April 2011) indicate a marginal improvement in economic activity levels in these regions. Despite the surprising CPI print in the Euro Zone (+1.1% in December), the uncertainty on the dynamics of the European economy, amid the electoral period of important countries, led the ECB chairman to reiterate that he may increase monetary policy easing if inflation starts coming down again in the medium term.

## EQUITIES STRATEGY

Our equities funds posted gains in the month, boosted by additional gains in the Brazilian stock market (Ibovespa +3.08%) amid a global risk-on scenario and rising commodity prices.

We again highlight the result of our AZ Quest Top Long Biased fund (+5.53%). The main gains came from the Utilities, Transport and Bank sectors and, especially, from our long and relative value position in Mining, in a month in which Vale announced a corporate restructuring.

Our Long Short strategy funds also rose, with gains coming from our long positions in Mining, Water Utilities and our short position in Consumer Goods.

We remain long in global cyclical sectors and in companies with returns above their cost of capital and recurring cash flow, and short in defensive sectors with less operating leverage and trading at stretched multiples.

## MACRO STRATEGY

In another month of gains in risk assets, our funds again posted good results (AZ Quest Multi: +3.49% (403% CDI), AZ Quest Yield: +2.20% (253% CDI).

The real and nominal yield curves narrowed again, generating a positive contribution in our positions in DIs and NTN-Bs in the belly of the curve, which we have been carrying for several months. Our long and relative value equity position posted strong gains.

We also highlight the good result of our currency book, mainly via the purchase of BRL against USD and Euro. We remain long BRL, but we prefer to use an options structure to manage the risk of a structural USD appreciation movement.

## CREDIT STRATEGY

Our funds again outperformed their long-term benchmarks, in particular our debenture and LFS-N portfolios. We continue with conservative portfolios, with high cash levels.

In the AZ Quest Altro fund, we highlight the result of our inflation book, due to the narrowing of the yield curves (real and nominal) and the contribution via the purchases of assets in the primary market and, to a lesser extent, via the secondary market.

The month was calmer than normal in terms of new issuances. We analyzed only two new primary offers for both funds, and opted to enter only one of them via the bookbuilding process to which we were allocated. Financial settlement is scheduled for March.

We continue with a conservative profile in our credit risk management, in line with our last letter, even after the improvements in the political environment and some macroeconomic data.

## ARBITRAGE STRATEGY

Our funds performed well, and they all beat their benchmarks. The Legan Low Vol fund again did well, gaining 0.97% (111.7% of CDI). The main gains came from our financing & reversal strategies in VALE5 and PETR4, and our forward financing strategy. The AZ Legan Termo fund posted a return of 0.87% (99.9% of CDI), impacted by Fund Administrator transfer costs.

## RENTABILIDADES

Fundos

Início

Rentabilidades

Comparação com  
Benchmark

|                    |  | fev/17    | 2017  | fev/17 | 2017      |           |
|--------------------|--|-----------|-------|--------|-----------|-----------|
| <b>Ações</b>       | <a href="#">AZ QUEST AÇÕES FIC FIA</a>           | 01-jun-05 | 2,15% | 9,76%  | -0,9 p.p. | -0,9 p.p. |
|                    | <a href="#">AZ QUEST SMALL MID CAPS FIC FIA</a>  | 30-dez-09 | 5,52% | 16,74% | -0,2 p.p. | -1,1 p.p. |
|                    | <a href="#">AZ QUEST TOP LONG BIASED FIC FIA</a> | 18-out-11 | 5,53% | 17,58% | 2,2 p.p.  | 6,8 p.p.  |
|                    | <a href="#">AZ BRASIL FIA</a>                    | 02-mai-16 | 0,00% | 5,50%  | -3,1 p.p. | -5,2 p.p. |
| <b>Long Short</b>  | <a href="#">AZ QUEST EQUITY HEDGE FIM</a>        | 30-nov-07 | 1,14% | 2,96%  | 131%      | 151%      |
|                    | <a href="#">AZ QUEST TOTAL RETURN FIA</a>        | 23-jan-12 | 1,38% | 3,77%  | 159%      | 192%      |
| <b>Macro</b>       | <a href="#">AZ QUEST YIELD FI RF LP</a>          | 20-set-12 | 2,20% | 3,36%  | 253%      | 171%      |
|                    | <a href="#">AZ QUEST MULTI FIC FIM</a>           | 13-set-13 | 3,49% | 5,49%  | 403%      | 280%      |
| <b>Crédito</b>     | <a href="#">AZ QUEST LUCE</a>                    | 15-dez-15 | 0,95% | 2,21%  | 110%      | 113%      |
|                    | <a href="#">AZ QUEST ALTRO</a>                   | 11-dez-15 | 1,11% | 2,47%  | 128%      | 126%      |
|                    | <a href="#">AZ LEGAN VALORE</a>                  | 28-abr-14 | 0,00% | 1,24%  | 0%        | 63%       |
|                    | AZQ DEBENTURES INCENTIVADAS                      | 06-set-16 | 1,77% | 4,28%  | 2,97%     | 0,5 p.p.  |
| <b>Previdência</b> | <a href="#">ICATU SEG AZ QUEST PREV. MULTIM.</a> | 22-abr-15 | 0,74% | 2,90%  | -0,8 p.p. | -1,7 p.p. |
|                    | AZ QUEST ICATU PREV RENDA FIXA                   | 09-set-16 | -     | -      | -         | -         |
| <b>Arbitragem</b>  | <a href="#">LEGAN LOW VOL</a>                    | 28-nov-08 | 0,97% | 3,35%  | 2,14%     | 5,89%     |
|                    | <a href="#">AZ LEGAN TERMO</a>                   | 03-ago-15 | 0,87% | 3,19%  | 2,03%     | 6,50%     |
| <b>Caixa</b>       | <a href="#">AZ CASH SOBERANO</a>                 | 02-mai-16 | 0,00% | 2,11%  | 1,04%     | 6,14%     |

| Índices           | fev/17 | 2017   |
|-------------------|--------|--------|
| CDI               | 0,87%  | 1,96%  |
| Dólar (Ptax)      | -0,89% | -4,90% |
| Ibovespa - Fech   | 3,08%  | 10,68% |
| IGPM              | 0,26%  | 0,52%  |
| IBX-100           | 3,30%  | 10,75% |
| Índice Small Caps | 5,73%  | 17,81% |

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