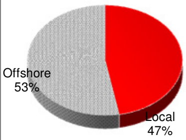
BAHIA & ESPÍRITO SANTO FUND

Jun-18



International markets showed a quite weak performance in June, explained by the continuity of global interest rates normalization, and and also by increasing concerns about a global trade war. The FED raised the short term interest rate by 25 bps this month, pushing it to 1.75-2.0%. In its projections for the future rate, it signaled that it could make two more increases later this year, which would take the short interest rate to 2.5%. In its forecast, the FED signaled that it could make two more hikes later this year, which would take its key rate to 2.5%. In the same week, the ECB announced the reduction of its asset purchase program to EUR $ 15 billion per month after September's round of purchases, and it will end the program after December/2018. However, it has not yet signaled when it will start to increase interest rates. This month, the threat of a "trade war" started to materialize. Trade talks between US and China halted, causing negative impacts in the markets, especially in agricultural commodities and industrial metals. One of the expected effects of protectionist policies is rising inflation, once tariffs could be transfered to prices.

Brazilian markets, as well as other emerging markets, have been hit hard by the deterioration of the international market mood since the end of April. The tightening of global liquidity conditions, combined with the trade war threats, made a more difficult environment for the success of emerging economies who have started to gain traction of growth. Faced with a scenario of external conditions deterioration in a more accelerated way, the Brazilian Central Bank (BCB) chose to keep the interest rate stable at 6.50%. In the BCB inflation report released at the end of June, forecasted scenarios indicate that inflation would go from 3.8% to 4.2% in 2018 and from 4.0% to 4.1% in 2019, considering that BRL/USD would close 2018 at R$ 3.70 and interest rates would remain unchanged. The Brazilian Central Bank has been active in the exchange market since May, using reverse swaps to reduce currency volatility. However, the BRL devaluation until now (around -15%) presents a challenge for the Central Bank, since the currency volatility is expected to rise with presidential elections comming closer.

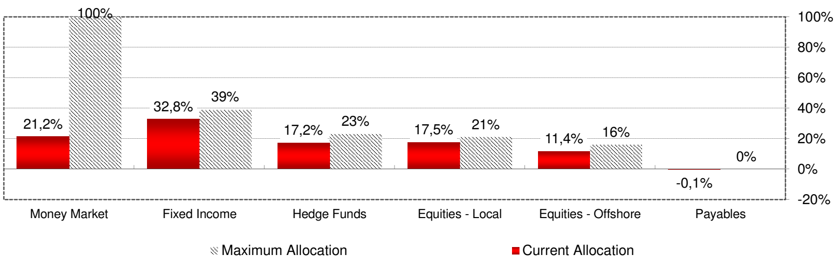
Bahia & Espírito Santo Fund portfolio was down 0.2% in June/18. It was another month of high volatility for local markets, when interest rates shifted up and equity markets posted negative returns. And once again, the international exposure fulfilled its diversifying role and brought significant gains to the portfolio. Pilling up gains of 4.2%, International Equities allocation benefited specially from the currency appreciation against the real (the USD/BRL appreciated 3.6% in June). Hedge Funds despite suffered with the greater volatility during the month, ended up June up 0.5% (in line with CDI and its benchmark). Fixed Income, in turn, closed the month with zero return, in line with its benchmark. Local equities lost -4.4% in June and remains below the IBX ytd and in the last 12 months. In real terms, it is worth mentioning that after the strong rise in June (which closed at 1.3%), inflation measured by the IPCA accumulated 2.6% ytd, bringing the real gain in 2018 to -0.7%. The international portfolio was up 0.1% in June. Equities ended up the month at +0.3% (above MSCI World benchmark). Fixed Income, in turn, ended June up 0.0%, slightly below its benchmark Barclays Global Aggregate Hedged. In 2018, the portfolio shows results slightly below with its benchmark (1.9% against 1.6%) and below CPI inflation (1.1%).

PORTFOLIO PERFORMANCE - LOCAL (BRAZIL)

ASSET CLASS	MTD	YTD	Allocation
Money Market - Local	0,5%	3,1%	799.685
Fixed Income - Local	0,0%	1,7%	1.236.249
Hedge Funds - Local	0,5%	4,0%	649.069
Equities - Local	-4,4%	-8,2%	658.720
Equities - Intern.	4,2%	16,7%	430.015
Payables	0,0%	0,0%	(1.894)
Total	**-0,2%**	**1,9%**	**3.771.845**

BENCHMARK	Mês	Ano
CDI	0,5%	3,2%
IRF Composto	0,0%	2,0%
IFM	0,5%	2,8%
IBX	-5,2%	-5,2%
MSCI World Unh. (BRL)	3,6%	17,8%
Benchmark	**-0,4%**	**2,6%**
Inflation IPCA	1,3%	2,6%

ASSET ALLOCATION



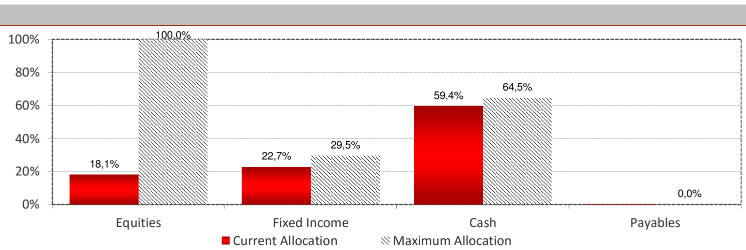
PORTFOLIO PERFORMANCE - OFFSHORE

CLASSE DE ATIVO	Mês	Ano	Alocação em U$
Fixed Inc. Low Vol	0,1%	0,3%	196.198
Fixed Income	0,0%	0,0%	246.257
Equities	0,3%	3,3%	644.870
Payable	0,0%	0,0%	(920)
Consolidado	**0,1%**	**1,9%**	**1.086.405**

BENCHMARK	Mês	Ano
RF LV COMP	0,1%	0,4%
Barclays Global	0,3%	0,3%
MSCI WORLD	0,0%	2,0%
BENCHMARK	**0,1%**	**1,6%**
CPI	0,0%	1,1%

The benchmark of the offshore portolio is based on weighted average of international benchmarks for each asset class, considering the average allocation (between the minimum and maximum expected allocation) expressed on its investment policy. To calculate the benchmark, the MSCI World Unhedged was employed, since it is the only investable.
**Using mtd forecast*

ASSET ALLOCATION



BAHIA & ESPÍRITO SANTO FUND

Jun-18

GROWTH AND CURRENT ACCOUNT - LOCAL PORTFOLIO (In R$ Thousands)

GROWTH	2016	2017	2018	ACC
NOMINAL	8,7%	8,7%	1,6%	10,5%
REAL	5,5%	5,5%	-1,0%	4,4%
IPCA	2,9%	2,9%	2,6%	5,8%

GROWTH	2016	2017	2018
INITIAL	0	3.416	3.712
Subscriptions	4.099	0	0
Withdrawals	0	0	0
Account Costs	-29	-64	-11
FINAL	4.285	3.712	3.772
ACCOUNT COSTS	***-0,7%***	***-1,7%***	***-0,3%***
SPENDING RATE	***0,0%***	***0,0%***	***0,0%***

GROWTH AND CURRENT ACCOUNT - OFFSHORE PORTFOLIO (In US$ Thousands)

GROWTH	2016	2017	2018	ACC
NOMINAL	0,0%	1,5%	1,9%	3,5%
REAL	-0,1%	-0,6%	0,8%	0,1%
IPCA	0,2%	2,1%	1,1%	3,4%

GROWTH	2016	2017	2018
INITIAL	0	1050	1066
Subscriptions	1.050	0	0
Withdrawals	0	0	0
Account Costs	0	0	0
FINAL	1.050	1.066	1.086
ACCOUNT COSTS	***0,0%***	***0,0%***	***0,0%***
SPENDING RATE	***0,0%***	***0,0%***	***0,0%***

The difference between the portfolio performance and the portfolio growth is that the latter considers the impacts of transactions and taxes.