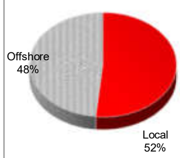
BAHIA & ESPÍRITO SANTO FUND

Oct-17



Among the events of October, it is worth recalling the plebiscite in Catalonia, which triggered a Madrid intervention in the region, with the dismissal of local government. In addition, it is worth to mention the 19th Communist Party Congress in China, with a definition of the core of power for the next 5 years and the negotiations around the US fiscal agenda. Despite the events, market performance remained positive - the potential risk of rising interest rates, while affecting the interest market, caused further swing at the short end. The equities market performed very well, both because of the anticipated US tax reform agenda and because of the very positive economic data, but also because of the relative stability of the long end of the interest curve (which is used in the valuation models of companies). This has remained stable, even in the face of the expectation of monetary tightening, as it is more related to the long term dynamics of growth and indebtedness of the country.

The Brazilian market followed the exchange devaluation movement and ended the month with a performance below the CDI in both Fixed Income and Equities. The government is already comfortable in announcing the end of the economic recession joined with a benign inflationary scenario in the country. However, political pressures continue this month, with the vote on the second complaint against president Temer. Once again, the president got the votes to escape the process, but with a lower margin than the first vote and, after that phase, should again focus on recomposing his base, paying the cost of the votes for the two denunciations. This month, the decision of the Central Bank to reduce the pace of the interest rate cuts from 100 bps to 75 bps, which led to the interest rate to 7.50%. In the minutes, the CB signaled that there would still be room for another additional cut at the next December meeting, leaving open what to expect for 2018. The market has adjusted to this prospect and expects only a further 50 bps cut in this next cycle.

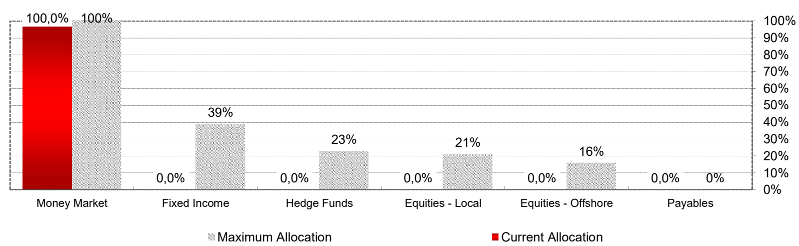
The local portfolio of the Bahia & Espírito Santo Fund showed a return of 0.6% in October / 17, which represents 100% of the CDI in the month. The portfolio is allocated in a repo operation with Banco Itaú, waiting for the allocation according to the mandate. In real terms, inflation measured by the IPCA accumulated 2.3% ytd, making the portfolio accumulate a real gain of 6.3% in 2017. The international portfolio returned + 0.5% in October. The funds are allocated at Pimco Global Bond Funds, while waiting the account opening at Deutsche Bank. In 2017, the portfolio showed a return of + 1.3%, slightly below the inflation of the year measured by the CPI.

PORTFOLIO PERFORMANCE - LOCAL (BRAZIL)

ASSET CLASS	MTD	YTD	Allocation (BRL)
Money Market - Local	0,6%	8,7%	3.713.434
Total	**0,6%**	**8,7%**	**3.713.434**

BENCHMARK	MTD	YTD
CDI	0,6%	8,7%
Benchmark	**0,6%**	**8,7%**
Inflation IPCA	0,4%	2,2%

ASSET ALLOCATION



PORTFOLIO PERFORMANCE - OFFSHORE

ASSET CLASS	MTD	YTD	Allocation (US$)
Fixed Inc. Low Vol	0,0%	0,7%	-
Fixed Income	0,5%	0,7%	1.064.119
TOTAL	**0,5%**	**1,3%**	**1.064.119**

BENCHMARK	MTD	YTD
LIBOR 12M	0,2%	1,4%
BARCLAYS MULT	-0,4%	-0,9%
BENCHMARK	**-0,4%**	**0,2%**
CPI	0,0%	1,5%

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