

## MANAGEMENT REPORT

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1<sup>o</sup> Quarter 2013



This material has the sole purpose of giving transparency and disclosing information about the management executed by Edge Investimentos. It should not be considered an offer to sell shares in the investment funds or any security and does not constitute the prospectus provided for in CVM Instruction 409 or in the ANBID Code of Self-Regulation. Investment Funds are not guaranteed by the fund manager, the portfolio manager, any insurance mechanism or even the Credit Guarantee Fund - FGC. Past performance is no guarantee of future performance. In order to evaluate the performance of an investment fund, an analysis of at least 12 (twelve) months is recommended. Disclosed returns are not net of taxes. Despite the manager's efforts to select the best investment options, the portfolio of the fund is subject to fluctuations in the prices of its assets, in addition to credit and liquidity risks that can lead to losses to the fund. Furthermore, equity funds may be exposed to significant concentration of assets on a few issuers, with risks stemming therefrom. For the funds managed by Edge Investimentos, the share conversion date is different from the redemption date and the redemption payment date is different from the redemption request date. Based on Law no. 9,613/98, when joining the fund each shareholder must provide us with copies of his/her identification documents, among other documents. Reading the prospectus and the funds' regulations thoroughly is recommended before investing.

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## Indicators

### Long-Term Performance

Below we present the long-term performance of Edge Value FIA.

We believe that the fund's performance should be analyzed at least in a three-year horizon.

Our goal is to obtain an absolute return in the long term higher than our cost of capital, and with controlled risk for permanent losses.

We do not expect to outperform the Bovespa Index every month or year. On the contrary, a conservative management is expected to underperform the market during euphoric times.

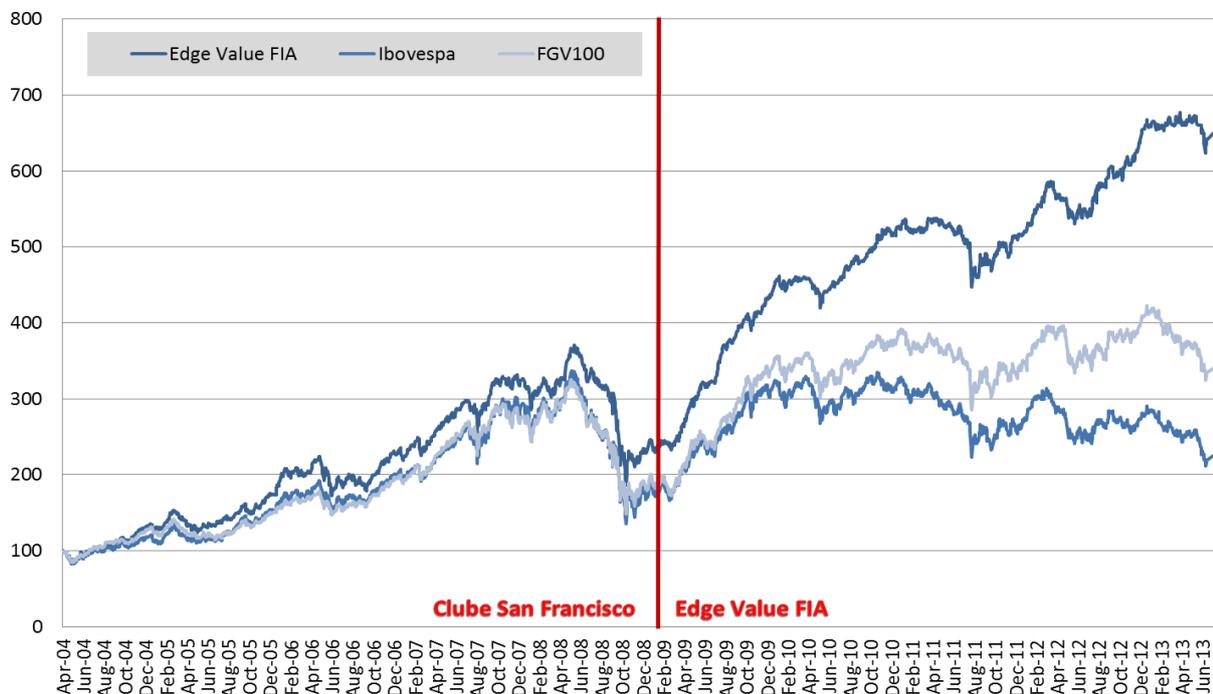
The charts below present the return on the fund and the performance of a simulated investment of R\$1,000.00 made at the opening of Clube San Francisco, the vehicle that originated Edge Value FIA. In both cases we compare our performance with that of the FGV-100 and Ibovespa.

Period	Return (%)				Performance of a simulated investment of R\$ 1.000,00				
	Edge Value	FGV100	IBOV	CDI	Edge Value	FGV100	IBOV	CDI	
4T 2013	-	-	-	-	-	-	-	-	
3T 2013	-	-	-	-	-	-	-	-	
2T 2013	-	-	-	-	-	-	-	-	
1T 2013	1,8%	-6,5%	-7,6%	1,6%	R\$ 6.719	R\$ 3.542	R\$ 2.833	R\$ 2.838	
2013 YTD	1,8%	-6,5%	-7,6%	1,6%	-	-	-	-	
2012	27,8%	21,8%	7,4%	8,4%	R\$ 6.599	R\$ 3.790	R\$ 3.065	R\$ 2.793	
2011	-1,9%	-10,6%	-18,1%	11,6%	R\$ 5.162	R\$ 3.112	R\$ 2.853	R\$ 2.576	
2010	19,0%	10,2%	1,1%	9,8%	R\$ 5.262	R\$ 3.481	R\$ 3.484	R\$ 2.309	
2009	85,8%	87,7%	82,7%	9,9%	R\$ 4.422	R\$ 3.158	R\$ 3.448	R\$ 2.104	
Clube San Francisco	2008	-27,2%	-34,1%	-41,2%	12,4%	R\$ 2.380	R\$ 1.683	R\$ 1.888	R\$ 1.915
	2007	40,3%	40,1%	43,7%	11,8%	R\$ 3.269	R\$ 2.553	R\$ 3.212	R\$ 1.704
	2006	33,1%	31,6%	33,7%	15,0%	R\$ 2.330	R\$ 1.823	R\$ 2.235	R\$ 1.524
	2005	29,2%	15,2%	27,1%	19,0%	R\$ 1.750	R\$ 1.386	R\$ 1.671	R\$ 1.325
	2004*	35,4%	20,3%	31,5%	11,3%	R\$ 1.354	R\$ 1.203	R\$ 1.315	R\$ 1.113
Since inception	572,0%	158,9%	284,2%	183,8%					
Annualized return	24,0%	11,3%	16,4%	12,5%					

\*Data from 04/15/2004 to 01/13/2009 refers to the Clube de Investimento Edge Value (the former Clube San Francisco and incorporator of the Clube Triumph). The conversion date for the Edge Value FIA was 01/14/2009.

## Performance Details

Below we present a performance comparison chart and a table with monthly details on the fund's return.



2013	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Year
Edge	0,02%	0,50%	1,30%										
Ibov	-1,95%	-3,91%	-1,87%										
2012	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Year
Edge	2,85%	5,45%	3,63%	-2,78%	-3,65%	1,03%	2,31%	3,01%	2,05%	2,58%	2,98%	5,81%	27,84%
Ibov	11,14%	4,34%	-1,98%	-4,17%	-11,86%	-0,25%	3,21%	1,72%	3,70%	-3,56%	0,71%	6,05%	7,40%
2011	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Year
Edge	-0,23%	-0,36%	1,92%	0,77%	-1,15%	-0,64%	-3,98%	-4,93%	-0,23%	4,95%	-0,66%	3,04%	-1,90%
Ibov	-3,94%	1,22%	1,79%	-3,58%	-2,29%	-3,43%	-5,74%	-3,96%	-7,38%	11,49%	-2,51%	-0,21%	-18,11%
2010	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Year
Edge	1,77%	0,91%	0,89%	-1,99%	-1,80%	1,94%	4,61%	2,70%	0,38%	3,95%	3,30%	1,06%	18,99%
Ibov	-4,65%	1,68%	5,82%	-4,04%	-6,64%	-3,35%	10,80%	-3,51%	6,58%	1,79%	-4,20%	2,36%	1,05%
2009	jan	feb	mar	apr	may	jun	jul	aug	sep	oct	nov	dec	Year
Edge	0,27%	1,89%	2,17%	15,54%	8,37%	3,65%	10,76%	4,98%	5,91%	-0,44%	5,86%	5,67%	85,79%
Ibov	4,66%	-2,84%	7,18%	15,55%	12,49%	-3,26%	6,41%	3,15%	8,90%	0,05%	8,93%	2,30%	82,66%

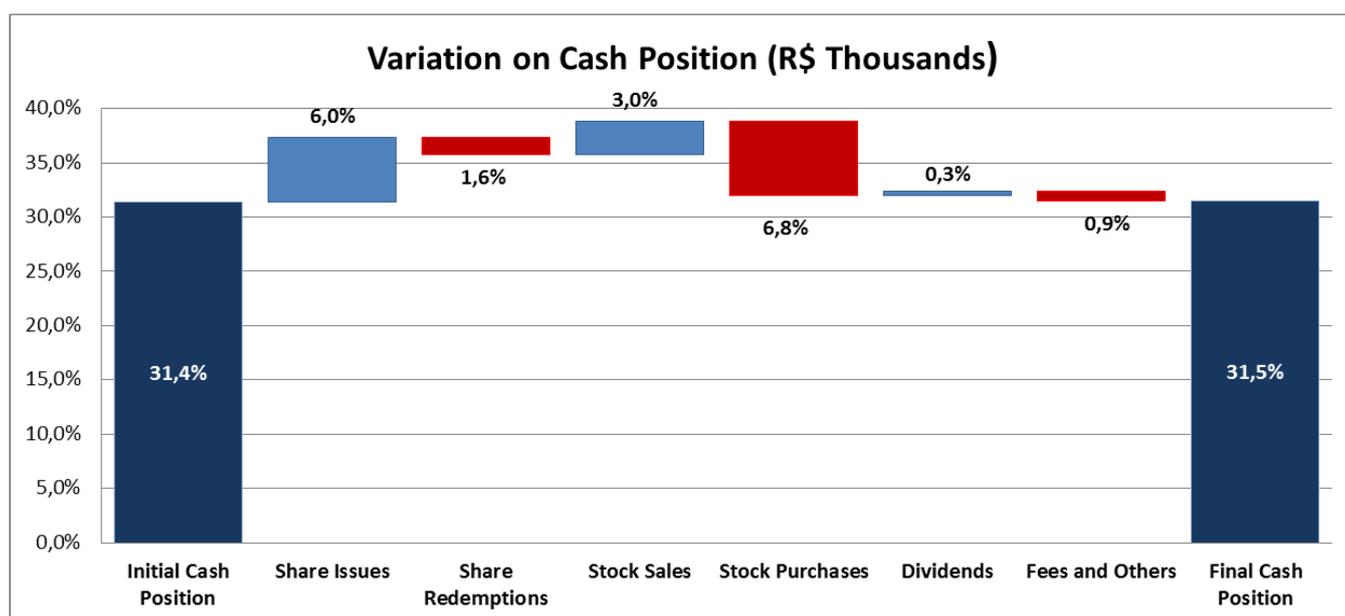
## Quarterly Activity

### Variations in the Fund's Cash Position

During the quarter, we raised our exposure to the utilities sector by allocating 1.5% of the fund's assets to a new company, Tractebel. In addition, we allocated 5.3% of the fund to investments already in the portfolio, benefiting from opportunities caused by market swings.

We sold part of our investment in Porto Seguro, whose appreciation depleted part of our margin of safety, resulting in a cash increase of about 3.0% of the net asset value (NAV).

The chart below depicts the evolution of the fund's cash position during the quarter. The percentages are calculated based on the average assets in the period.



### Performance Attribution

Amid the portfolio investments, the positive highlights were Porto Seguro ON, Coelce PNA and Itaúsa PN. We are optimistic about these three companies, the quality of their businesses and their management teams.

The leading detractors were Comgás PNA, AES Tietê ON and BM&F Bovespa, which contributed negatively by less than 1% in the quarter.

The chart below details the five top contributors and detractors to performance in 2013.

Company	Performance Attribution	Company	Performance Attribution
Porto Seguro ON	1,32%	Comgas PNA	-0,45%
Itaúsa PN	1,30%	AES Tietê ON	-0,30%
Coelce PNA	1,25%	BM&F Bovespa ON	-0,05%
São Carlos ON	0,44%	Randon PN	-0,03%
Bradesco ON	0,27%	Tractebel ON	-0,01%

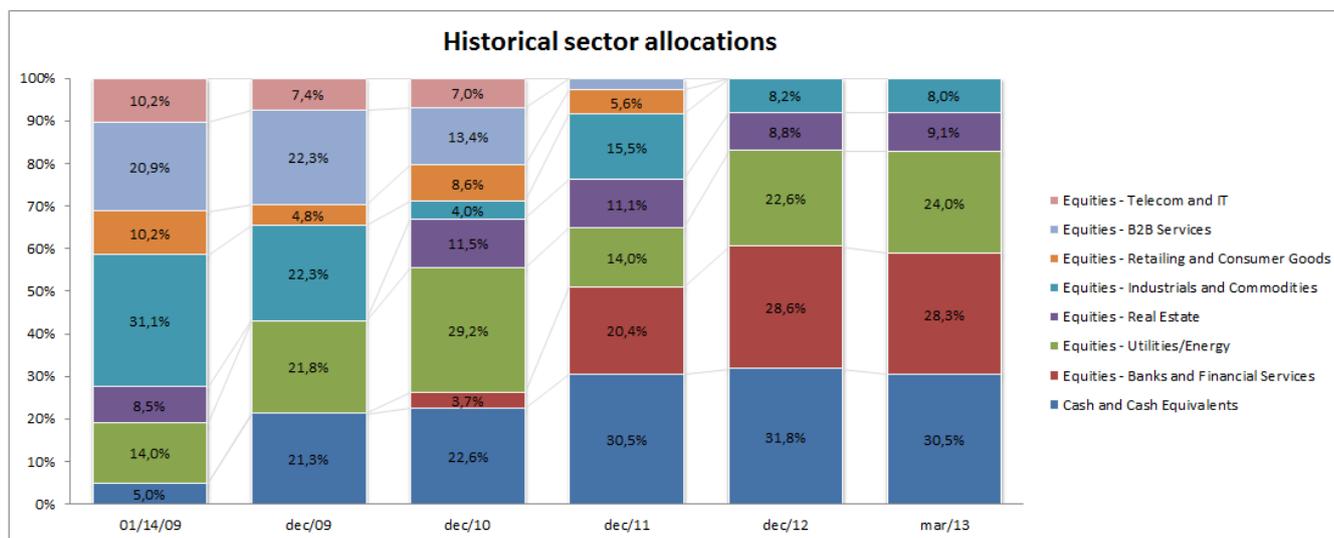
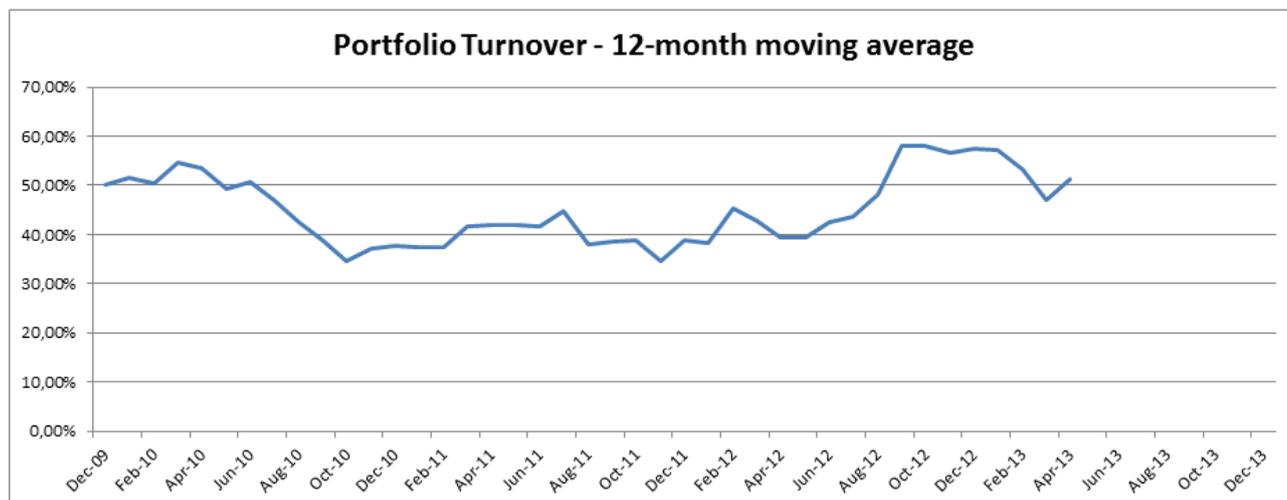
## Sector Allocation and Turnover

The charts below depict the historical allocation per industry and the turnover of the fund’s portfolio.

As one might expect, our way of investing results in a low turnover compared to other stock funds.

We believe that the return on the fund will be composed majorly by the cash generated by the companies in the portfolio, which is reinvested in the business or paid as dividends. The gains attributed to shorter-term investments, when the difference between the entry and exit multiple is determinant, should represent a small percentage of the total return and the fund’s portfolio.

Our turnover tends to vary according to the volatility of the stocks that we track, as we use market swings to raise or reduce positions at attractive prices.



\* The percentages above are calculated based on the NAV of the fund at the end of the period.

## Portfolio

The table below presents the breakdown of our stock portfolio, based on the criteria used internally for industry classification.

	Mar/13
Cash and Cash Equivalents	30,5%
Banks and Financial Services	28,3%
Utilities/Energy	24,0%
Real Estate	9,1%
Industrials and Commodities	8,0%

\* The percentages above are calculated based on the NAV of the fund at the end of the period.

### **Financial Services**

Within this category we currently invest in five companies: Bradesco, Itaúsa, Cielo, BM&F Bovespa and Porto Seguro.

These investments present solid competitive positions, relevant market share and growth opportunities.

Our largest position in this industry (as well as in the fund) is Itaúsa, which represents 13% of our NAV. We do not believe that the company's price is adequate. It has been undergoing important changes against a backdrop of lower interest rates and spreads.

The second largest position is Porto Seguro, which currently makes up 6.19% of our portfolio. In the quarter, we took advantage of an increase in the stock prices to slightly reduce our exposure to the company. The position was set up at R\$18.80 per share. We have maintained the investment because we believe there are still relevant opportunities to be seized in insurance and services, to name a few.

The remaining positions are smaller, all of which below 5% as a result of specific risks pertaining to the business and/or valuation with little margin of safety.

## Utilities and Energy

Our utilities are Coelce, Comgás, AES Tietê and Tractebel. The latter two were bought after the Provisional Measure 579. The largest exposures are Comgás and Coelce, each with 10% approximately.

Comgás is facing an important milestone as it braces for a price revision process – which is done every five years by ARSESP, the regulating agency of the State of São Paulo. Meanwhile, it is now influenced by its new controlling shareholder, Cosan group.

Even though its operation is relatively streamlined, our talks with industry players point to the existence of efficiency gains to be seized after 2014. We believe that Comgás, at the current price, presents a very favorable risk-return ratio.

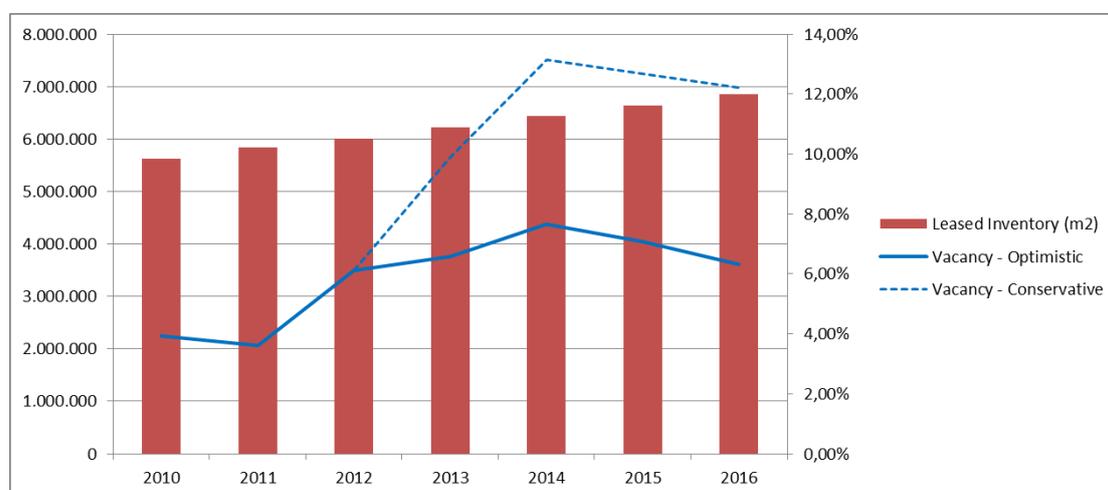
We have no big update regarding Coelce, which continues to present healthy operating and financial indicators. We are closely monitoring the controlling shareholder, Enersis, which just obtained US\$2.4 billion in a capital increase. According to company presentations, it could hold a tender offer for the acquisition of Coelce stock.

## Real Estate Industry

Last quarter we bought a small stake in a new real estate company based in Brazil. We will comment on it in the future. The position is still very small and we should increase it in case we have the opportunity to do so.

Regarding the other investment in the industry, São Carlos, the market for corporate properties in São Paulo went through a favorable period in recent times, when the average vacancy hit record lows, below 3%. This effect stemmed from a gap between supply and demand for space, which became narrow due to difficulties in obtaining approvals and the sentiment of the market after the 2008 crisis. It is worth saying that a corporate building takes about three years to be entirely built, from blueprint to delivery.

Since the end of last year, new space became available with deliveries of as many as 500,000m<sup>2</sup> per year for the next few years. This large supply of space, added to a dismal GDP growth, tends to move the bargaining power from lessees to lessors, who should be able to lock in cheaper rent from now on. The chart below bears a few scenarios for vacancy in the São Paulo market for the coming years.



Source: Edge research and CB Richard Ellis. Inventory data considers every building built after 1965 with central air conditioning and at least 1,000m<sup>2</sup> of total floor area.

As can be seen above, vacancy in São Paulo should rise in the next few years, reaching historical levels for that market. That being said, our research does not see a bubble in the São Paulo market. Also, the decrease in the pace of launches in the past 12 months already points to a higher supply discipline (a result either from greater developer prudence or restrictions imposed by the city government).

As for São Carlos, we believe that the impact of this scenario on the company will be very limited. An analysis of the current portfolio points to some properties being leased below market prices<sup>1</sup>, which would serve as a cushion to absorb eventual price reductions. Also, the cost of moving for a company is hardly lower than R\$2,000 per m<sup>2</sup>, which does not justify the change in location just to save a few Reais per m<sup>2</sup>.

Our main concern is concentrated on the rental of EZ Tower, which will see stiff competition from premium GLA in the region. We will closely monitor this effort.

Lastly, an eventual weakness in the market may offer interesting opportunities for the allocation of the R\$1.5 billion (cash + debt) that the company has on hand for the acquisition of new properties at attractive prices.

## **Industrials and Commodities**

We highlight our investments in Randon and Gerdau.

Regarding Randon, we must make two analyses: (a) Recovery of the market and (b) Acquisition of 49.99% of Suspensys (subsequent event).

The year 2012 saw a very weak demand for trucks and semi-trailers. The major reason was the introduction of Euro V engines that are less pollutant and became mandatory for new trucks from 2012 on. This new engine is more expensive and demands special diesel with less sulfur, which was not yet available in the whole of Brazil.

The users, aware of the introduction of the Euro V, bought trucks ahead of schedule at the end of 2011. The automakers followed suit, quickening the production of trucks with the old engine, reaching the end of 2011 with a relevant stock. Consequently, in 2012 the sale and production of trucks in Brazil fell 20% and 40%, respectively.

Randon's business is fixed-cost intensive, so the 2012 margins were very compressed because of the reduction in economies of scale. The good news is that, as expected, the market recovered in a relevant manner in 2013, both for autoparts and semi-trailers. The order backlog of Randon Implementos, for example, is taken until November 2013. Therefore we believe that net revenue and margins should recover to a level that we consider to be recurring.

Another relevant development at Randon was the acquisition of the stake of Meritor group in Suspensys, a JV that makes suspension systems, axes, beams, hubs, brake drums and brackets for commercial vehicles.

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<sup>1</sup> São Carlos estimates a leasing spread of 21% to be seized in the coming years.

The acquisition seems to be low risk as Randon already controlled and operated the company, so there was no information asymmetry favoring the seller, or even the need for due diligence. Also, Suspensys had for years developed technology internally, so it did not depend on R&D at Meritor to maintain its product line up to date. Lastly, the valuation of the transaction looked attractive, perhaps as a consequence of the efforts to reduce leverage<sup>2</sup> at Meritor.

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As for Metalúrgica Gerdau, we again set up a position following a relevant drop in the stock price. We believe that Gerdau has been producing a much lower result compared to its true earnings power, as a result of extreme excess capacity in the global steel industry. We have studied the possible balance between supply and demand, which would call for the recovery of steel consumption in developed economies and/or a decrease of productive capacity. Today, the ON and PN stocks of GOAU represent 3% of the fund.

Thank you for your trust.

Respectfully,

**The Management Team of Edge Investimentos**

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<sup>2</sup> When commenting on the Suspensys transaction, Chip McClure, CEO of Meritor, affirmed: “We are pleased to have entered into this agreement and look forward to using the proceeds from the sale to support our continued efforts to strengthen our balance sheet (...)”.