ALASKA

ASSET MANAGEMENT

QUARTERLY LETTER

4Q2014

ASSET MANAGEMENT

EQUITY STRATEGY

In the 4th quarter of 2014, **Alaska Black FIC FIA - BDR Nível I** returned -16.61%, compared to +3.27% of IPCA+6% (*benchmark*), +2.76% of CDI and -7.59% of the Bovespa Index.

	4Q14 (%)	Since Inception (%)
Alaska Black	-16.61	9.85
Ibovespa	-7.59	-11.89
IPCA+6% a.a.	3.27	42.11
CDI	2.76	29.8

The performance attribution for the quarter, by sector, is shown below:

Asset	Perf. Attribution 4Q14 (%)
Real Estate	-6.00
Consumer Goods	1.51
Healthcare	-0.22
Industrials	1.61
Petrochemical	0.05
Arbitrage/ Hedge	-13.32
Cash	0.32
Cost	0.00
Management Fee	-0.51
Total	**-16.61**

The fund ended the 4th quarter of 2014 with the following characteristics:

1. Investments and Divestments: We currently hold 14 companies in our portfolio. We invested in a new company that meets our qualitative and quantitative prerequisites. Its entry was financed by the divestment of a company that reached low levels of return on capital.

2. IRR: The expected internal rate of return on the portfolio of companies projected by us is 19.22%, that is, if we consider a long-term inflation in Brazil of 5.50%, the fund expects a real return of 14.72% per year in the long term. There are 14 companies with individual expected rates of return ranging from 15.10% to 25.97%.

3. Dividends: The fund received in the 4th quarter of this year approximately R$ 125.2 thousand in dividends from invested companies (dividends and interest on equity), totaling R$ 2.86 million in 2014.

4. Other Revenue: The fund had a negative return of approximately R$ 4.81 million in other income/expenses such as share lending, arbitration/hedge operations and cash compensation, totaling a negative result of R$ 2.37 million in 2014.

It is worth highlighting two points regarding the "arbitration/hedge" sector shown in the previous table. In this sector there are two main sources of return as its name suggests; local yield curve arbitrage, and operations aimed at protecting the effect of rising interest rates on the equity portfolio.

Since they were started in October 2013, arbitrage operations have contributed positively to the fund.

Hedging operations (Hedge Strategy against the effect of rising interest rates) started in September 2014, generating a positive return of more than 1% for the fund, reducing the loss of the equity portfolio by 4.2% in that month. On that occasion, we made a simple future purchase, which worked as expected.

In November, with Brazilian futures interest rates at high levels, mainly in a specific region of the yield curve, we decided to exchange the simple purchase of future interest rates for the purchase on the slope of the curve, as we understood that in a risk aversion scenario, there would be more chances of an increase in the slope of the curve rather than a general increase in rates.

However, asset prices did not behave as we had initially expected. In December, when Russia drastically raised its interest rates to contain the devaluation of the ruble, all maturities on the Brazilian yield curve rose sharply, with short interest rates rising even more than long interest rates, going in the opposite direction of our expectations. The market speculated that Brazil could also raise the SELIC rate, to contain some currency stress.

Thus, we chose not to maintain the position as our thesis of protection via the purchase of the slope of the yield curve was invalidated. The cost was about 6% for the fund. We would have been better off had we simply bought the interest rate as we did in September and October.

Considering the results of the 3rd quarter of 2014 of our companies, the following is a comparison of the consolidated results of the 3rd quarter of 2014 versus the 3rd quarter of 2013:

Variation (%)	2Q14 vs 2Q13	3Q14 vs 3Q13
Net Revenue	13.7	6.0
Net Profit	22.4	11.1

It is worth noting that, despite the adverse economic scenario, our companies continue to grow both in sales and in net profits.

The decrease in growth versus 2Q14 is basically due to two companies that sold part of their assets in the period, which generated most of the dividends received by the fund in the last quarter. Many past investments are maturing, and the growth momentum is expected to continue in the coming months until stabilizing in mid-2015.

In the third quarter of 2014, Brazilian GDP nominally grew by 6.25% (a real drop of 0.24%), while our companies' revenues nominally rose by 6.00% (a real drop of 0.5%).

Brand

In the previous letter, we addressed a characteristic that we attach great importance to when evaluating companies: resilience. Continuing with the points that we consider relevant, we would like to address what we consider one of the best competitive advantages that a company might have: the **brand**.

When we look at large companies that have been successful over the last few decades, it's hard to find one that hasn't taken advantage of some kind of competitive edge.

Whether through strong logistics, mastery of raw materials, intellectual pioneering, unique patents, or strong brands, these companies have managed to reach different levels of success throughout their history. But of all the differentials created to date, a brand that is consolidated and admired by customers seems to us to be one of the most lasting and profitable. That being said, it is one of the hardest aspects to measure.

Operational and political (lobbying) advantages may last a long time, but they do not make a company immune to sudden market changes. De Beers, for example, until the end of the 1980s remained at the top of the diamond market, with 80% of market share, as it exerted strong control over the world supply. A few decades later, new competitors emerged, and the company now has less than half of its previous market share, having lost its bargaining power. Previously, the company's competitive advantage seemed extremely robust. It wasn't.

Unlike competitive advantages arising from economies of scale, successful brands are linked to emotional aspects of the consumer. The brand is not simply a creative name, or excessive advertising on top of a product. The value of a brand is how much it means to its consumers. The key to creating bonds is in the set of experiences involved in contacting the consumer, directly or indirectly. To achieve this, companies plan their service, environment, advertisements and even smell and color in order to convey a set of impressions and sensations to customers. A bond based on experience is extremely difficult for competitors to reproduce and can definitively leave a mark on customer's memories and sensations.

It is very difficult to hear the phrase "Just do it" and not immediately associate it with the Nike logo, the practice of sports and the desire for self-improvement. The company, through advertisements, sponsorship of sports idols, themed stores and products, managed to worship the athlete in a way that none of its competitors could. Despite being well known, Adidas hardly manages to bring as many spontaneous memories as Nike, and that's what sets these two great companies apart. Something similar happens with Apple and Samsung. While both are much alike, only one has a very loyal clientele that seeks something beyond performance.

The focus on the brand is the result of a paradigm shift established by large companies up to the 80's and 90's. Until that period, the success of companies came from a focus on production, and the process of creating brands was not the focus for the operations. Companies like Wal-Mart have had success offering low prices and consistent operation, often through their “generic” brands. However, the gigantism and centralization of the means of production of large companies in the 80's and 90's began to be an anchor, not a competitive advantage. Labor costs and massive integrated operations required a degree of control and bureaucratization that made it impossible for companies to focus on what they were discovering as their best assets, their brands. It was at the end of the 90's that some companies started to have excellent performances, with a slightly different philosophy. They invested in brands as the company's main asset, were concerned with consumer experiences and sought differentiation. It was the birth of concept stores, interactive advertisements, and a decentralized production model, as the focus was on the brand.

We cannot think that a strong brand is an asset that will guarantee permanent success. Kodak was an icon of photography for 125 years, but a management that did not know how to reconcile the modernization of the market with the original traditionalism of the brand quickly led the company to failure. In our investment process, the brand has no direct weight in the selection. However, all the other factors naturally end up highlighting companies with this attribute. Good brand management is the result of good people. Resilient and above-average results are the result of customer loyalty and the quality of the product sold.

Portfolio

We continue to avoid any businesses that present state management, structural weakness or that is excessively dependent on tax incentives. Companies with an understandable business model, good management, sustainable competitive advantages and clear possibilities for profitable growth are our focus. We will divest from any position that no longer presents these characteristics, or that arrives at a price that leaves its internal rate of return below our required rate.

Variation (%)	2015	2016	2017	2014 to 2017
Net Revenue	18.37	15.05	13.69	54.82
Net Profit	18.49	16.98	13.59	57.47