ALASKA
ASSET MANAGEMENT

QUARTERLY LETTER

1Q2015

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EQUITY SRATEGY

In the 1st quarter of 2015, **Alaska Black FIC FIA - BDR Nível I** returned +12.43%, compared to +5.40% of IPCA+6% (*benchmark*), +2.81% of CDI and +2.29% of the Bovespa Index.

	1Q15 (%)	Since Inception (%)
Alaska Black	12.43	23.49
Ibovespa	2.29	-9.87
IPCA+6% a.a.	5.40	49.76
CDI	2.81	33.45

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

Asset	Perf. Attribution 1Q15 (%)
Real Estate	+0.72
Consumer Goods	+5.39
Healthcare	+0.96
Industrials	+0.18
Petrochemical	+0.58
Arbitrage/Hedge	+4.95
Cash	+0.19
Cost	-0.05
Management Fee	-
Total	**12.4**

The fund ended the 1st quarter of 2015 with the following characteristics:

1. Investments and Divestments: We currently hold 15 companies in our portfolio. We invested in a newcomer we had been following since 2011, which has been meeting our qualitative requirements for a long time. Finally, in 2015, it met our required internal rate of return (IRR) for us to invest. Its entry was financed by the dilution of our other invested companies;

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 11.43% per year in the long term. There are 15 companies with individual expected rates of return ranging from 14.55% to 22.97%;

3. Dividends: The fund received in the 1st quarter of this year approximately R$ 43.0 thousand in dividends from invested companies (dividends and interest on equity);

4. Other Revenue: The fund had a positive return of approximately R$ 1.55 million in other income/expenses such as share lending, arbitration/hedge operations and cash compensation.

Considering the results of the 4th quarter of 2014 of our invested companies, the comparison of the consolidated results of the 4th quarter of 2014 vis a vis the 4th quarter of 2013 follows. In the table below, we maintain the same comparison for the third quarters of 2013 and 2014:

Variation (%)	3Q14 vs 3Q13	4Q14 vs 4Q13
Net Revenue	6	8.19
Net Profit	11.1	15.6

It is worth noting that, despite the adverse economic scenario, our companies continue to grow both in sales and in net profits. The World Cup effect, which impacted some of our companies in 3Q14,

has already dissipated and in 4Q14 this effect ceased to exist, favoring an acceleration of both revenue and profit in our portfolio.

In the 4th quarter of 2014, Brazilian GDP nominally grew by 6.04% (real decrease of 0.20%) in the last 12 months, while our companies' revenues nominally grew by 8.19% (real gain of 1.53%).

Quantifiable versus Non-Quantifiable

The sayings "Everything that can be counted does not necessarily count, and everything that counts cannot necessarily be counted", wrongly attributed to Einstein, but authored by William Bruce Cameron, and "An idea or fact is not worth more merely because it's easily available to you", by Charlie Munger, point to a common human behavior of overvaluing the quantifiable. The reason for this is historical and cultural, mainly due to our mostly Cartesian education. In business analysis, it is a common and justifiable behavior, given the abundance of financial data provided by companies. Profit margins, return on capital, percentage growth, selling expenses, management expenses, tax rates, market revenue, market share, cost of debt, how many countries the company operates in, how many competitors there are, how much is the present value benefit, are all just a few calculations and clicks away, and that's the beginning of the problem.

In the morning, right after waking up, we learn about the latest happenings globally, through various means and sources. Based on this information, we build our mental model of what reality really is. But is what we understand as reality and the weight we give to each new information adequate to its real importance? What would be the relevance of everything that has not reached us?

People

Regarding investment in companies, what would be one of the most difficult factors to measure, of immense importance, and always

almost neglected? People. When we talk about investing in Ambev, investing in 3M, or in Disney, we are not actually making a capital allocation simply in a corporate taxpayer registry that produces beer, masking tape or Mickey Mouse design. Investing in Ambev is investing in Ambev's people and their capabilities. But what about the company's dominant brands? They were created, worked on and developed by the people who work at Ambev. And the distribution system? Same. Someone thought, designed, started and developed the powerful distribution network over several years.

How, then, to assess whether the people of a particular company are competent and talented? If we could interview, evaluating one by one of the thousands of employees and controlling partners of a company, we could have a more accurate diagnosis, but in addition to being unfeasible, it is unnecessary. Logically, a talented and competent person only stays in a company that offers an environment that talented and competent people enjoy. Just as mediocrity attracts mediocrity, talent attracts talent. And what would be an environment that talented and competent people enjoy? A company that exercises meritocracy, that grows to give opportunity, that gives autonomy to people, opportunities for growth and that has leaders who embody the company's culture. It is in the corporate culture that we see what the company is made of, its backbone, what its values are and what we can expect from those people. It is the most important non-quantifiable aspect, which will define the ability to attract talent, it will dictate the profile of the people who work in the company, it will give greater meaning to the company's existence, in addition to generating profit for shareholders. Just as a human

being hardly evolves if it only aims to eat, breathe and procreate, a company hardly climbs levels, if it only aims to generate profits.

Even a bad business, if run by good people, can become good, great, or even outstanding over time. We have numerous examples.

Ultrapar, founded in 1937, evolved from a company called Companhia de Gás a Domicílio, currently Ultragaz, into one of the largest Brazilian business groups. For this evolution to occur, the vision of aligning interests between ownership and management that Pery Igel had in the 1980s was fundamental. The then executive chairman of the board of directors and controlling shareholder of the group created a share distribution program to the main executives, which would be delivered to them between 10 and 20 years later.

From this story, we realized that it would be a mistake to give weight only to the characteristics of the Ultrapar group's business in the 1980s, and to ignore the people and long-term alignment mechanisms being developed (how to measure long-term alignment using statistical tools?). Pery Igel's big decision was to create a mechanism to perpetuate the species, and to attract good people to his company.

The investor who only analyzes quantifiable data runs the risk of missing excellent investment opportunities in great companies, and often pays a higher price when he decides to invest.

The question remains: in an investment analysis, if we must choose between (i) analyzing only the financial and numerical data of the business, or (ii) analyzing only the decision-makers in the company and the corporate culture, which would be better?

Corporate Culture

In an attempt to "fulfill the script", to cut corners, several executives and/or controllers spend time thinking, writing and rewriting texts about the "company vision", the "company values", or even the "company mission". The more ethical, comprehensive,

catchy, and beautiful, the better. What they should do is align the company around the values and visions that already exist.

Researching the most successful companies in Brazil and in the world, what can be concluded is that they focused on the alignment process, and not on writing the perfect text about the "company's values". The company's vision statement, or its values, comes later. It is a consequence of the already existence of these values. It is also not possible to "install" values in people. Energy expenditure should not be in convincing people to accept certain values, but to attract, to find people who already have the predisposition to share them.

The founders of 3M or Disney did not have these texts in hand when they started their companies. What they had were strong personal values and a great willingness and ability to transform these core values into concrete mechanisms. An emblematic example is 3M, known for its high capacity for innovation and solving of practical problems. The company has always supported innovation, encouraged, and protected individual creativity. Scientists at 3M are encouraged to set aside some time for personal projects, and the company's goal is to have 30%of its revenue from new products that are four years old or younger. These are initiatives clearly linked to the culture of innovation.

At Disney, the company culture permeates all company activities. The core ideology even appears in the language used by employees, called "cast members", who treat all customers as guests. Defined values, a clear vision and a sense of identity strengthen and unite the

people of a company around a common cause. There is meaning beyond profit. And if there are already studies that say that "faith heals", it can be empirically affirmed that a company with fanatical employees tends to prosper more than average.

In our investment process, the corporate culture is the most important aspect. It can be the company's biggest competitive differentiator, the source of long-term value creation. And the greatest difficulty is not to identify it, but to have discipline and patience to avoid companies with bad cultures, no matter how "cheap" they may seem in the eyes of accounting, and to give due time for companies with good cultures to reap the benefits. On many occasions, we have had better success analyzing an investment using tools taught by Charles Darwin rather than Benjamin Graham.

It's surprising how much value a group of great people can generate. If we remember what Brahma was and what Anheuser-Busch Inbev became, it is easy to understand.

Investment Selection

We cannot fall into the fallacy of feeling safe when loading a heap of pages filled with quantitative data from a company. An investment doesn't depend exclusively on that. Numbers help, but they end up serving more as a crutch for the insecure investor, than as an exclusive investment factor. This strategy, of piling up material from companies' studies, largely based on quantitative data, often works like great smokescreens.

The strategy of making an analysis look "deep" by the volume of graphs, calculations and tables is widely used. How many times have we heard mergers being justified by promises of synergy gains, and then the same business groups receive spin-off

recommendations (divestments) from the same ones that recommended the mergers as the separation of the businesses will result in better pricing of the separate parts. Reports of this nature are usually filled with numbers, sensitivity tables, graphs, and

statistical studies, in addition to beautiful formatting, as a way of justifying the recommendations.

We can never make the mistake of the "man with the hammer syndrome", where every problem "looks like a nail". We cannot overestimate what can be easily quantified at the expense of what can't, simply because we have more tools to deal with them. Numbers alone don't tell us anything. As a management philosophy, we see a lot of value in multidisciplinarity. There is much to take advantage of history, psychology, physics, and biology to supplement our economic and accounting models. But in doing so, we end up making our science far less accurate than some would want.

For this reason, we like Carveth Read's quote: "It is better to be vaguely right, than to be exactly wrong."

Portfolio

We continue to avoid businesses that involve state management, structural weakness or that depend excessively on tax incentives. Companies with an understandable business model, great management, sustainable competitive advantages, and clear possibilities for profitable growth remain our focus.

What is entering our radar at the beginning of 2015 are cyclical companies in the industrial sector, without neglecting the points raised in the previous paragraph. We have usually been avoiding this sector, due to the weakness of Brazilian GDP and the low level of confidence in businesses. However, the current share prices suggest

a very pessimistic valuation, which gives us a good margin of safety for the investment.