

ALASKA

ASSET MANAGEMENT

BIANNUAL LETTER

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EQUITY STRATEGY

In the first semester of 2016, **Alaska Black FIC FIA - BDR Nível I** returned +55.98%, compared to +7.46% of IPCA+6% (*benchmark*), +6.72% of CDI and +18.86% of the Bovespa Index.

	1S16 (%)	Since Inception (%)
Alaska Black	+55.98	+33.01
Ibovespa	+18.86	-9.21
IPCA+6% a.a.	+7.46	+74.39
CDI	+6.72	+56.92

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

Asset	Perf. Attribution 1S16 (%)
Arbitrage	+4.78
Consumer Goods	+1.21
Cost	-2.96
Real Estate	+4.90
Industrial	+8.23
Cash	+0.51
Steel	+0.01
Logistics	+5.87
Shopping Centers	+8.96
Hedge	+24.48
Total	+55.98

The fund ended the first semester of 2016 with the following characteristics:

1. Investments and Divestments: In the first half, we divested from three companies, two of them in the consumer sector and one in the steel industry. We added two companies, one in the consumer sector and another related to logistics. Once again, we were able to divest from companies with lower

expected returns and add more undervalued companies. We ended the semester with 8 companies in the portfolio.

2. IRR: The expected internal rate of return on the portfolio of companies projected by us rose from 21.25% at the end of the 2nd half of 2015 to 26.37% per year at the end of the 1st half of 2016. The increase is due to the portfolio's concentration in assets that had a strong devaluation in the period.
3. Dividends: In the 1st half of this year, the fund received approximately R\$ 437.41 thousand in earnings from companies (dividends and interest on equity).
4. Other Revenue: in the 1st half of 2016, the fund had a positive result of around R\$13.11 million in other income/expenses such as share rent, Arbitration/Hedge operations and cash compensation.

The table below shows how much the net income and revenues of the companies we invest in represent from the fund's equity. As we see the fund as a holding company, we see today's portfolio versus the portfolio we had a year ago.

Accounts	2S15	1S16	Variation (%)
Net Revenue	34.14%	122.25%	+258.1%
Net Profit	0.62%	-2.33%	-478.8%

Time

The latest estimates by the WHO (World Health Organization) indicate that an average individual will live around 71 years, much longer in some places and much less in others. In these 71 years, an individual will experience many cultural and technological advances, and at the end of his life, the world will surely be a completely different place. For him, these years mean everything. By historical standards, however, 7 decades is far less. On a geological scale, nothing. Depending on the reference point adopted, time can represent dramatically different things.

Einstein has already proved, through the Theory of Relativity, that time can also pass differently for bodies at different speeds, but this is far from our reality. Closer to us is the study of how different cultures see the temporal flow and perceive the passage of time, as well as the power that this has over investments.

Societies differ not only in cultures, languages, ethnicities, flag colors or cuisines, but also in the ways in which each one sees time. We managed to separate time systems into two groups, monochronic and polychronic. Cultures under the first system were able to see time, intangible and relative by definition, as exact, exemplified by the saying “Time is money”. This gives the impression that it can be wasted when nothing productive is done and, similarly, that it can be saved for the future through retirement money, for example. People are extremely strict about scheduling their appointments, and delays are considered rude in most cases. The United States represents this way of thinking well, since its entire society is guided by the ability to perform tasks in the best possible way, within rigid and immutable deadlines.

On the other side of the spectrum, polychronic cultures prefer to do several things at once, with flexible or non-existent schedules. What counts is where you arrive and not how long the journey takes. They also place a high value on building relationships, whether they are family or work. Time is seen as plentiful, so haste becomes unfounded. Mediterranean, Latin American, Arab and Indian cultures tend to see time this way, and this is reflected in their lifestyles. The siesta habit, despite being romanticized, represents very well the lack of concern with deadlines and the need to perform tasks as quickly as possible, after all when time is abundant, delays are not as important.

The perception of time not only varies according to different cultures, but also from person to person, even within the same society. Anyone who has ever been in a dentist's waiting room knows that 15 minutes feels more like an hour. Ten days of vacation, however, fly by without us even realizing it. It seems something quite paradoxical, especially considering the many studies that show that people are quite accurate in estimating the passage of time under normal conditions. The differences in perception arise because of the way our brains register moments and remember them. Days that “go by quickly” are often those when we are very focused on one activity; just remember how time always seemed to fly during the toughest tests at school. Boring moments, in turn, end up demanding little of our brains. The lack of something to process makes us notice and seek stimuli in the environment, as happens, for example, in dentists' waiting rooms where we notice every little detail of the tiles, or the hands of the clock.

A study published in the 1970s sought to test children's ability to resist a certain temptation, and to track the long-term effects of this "willpower" (or lack thereof). In the test, an instructor gave each child a marshmallow, with the promise that if they waited for them

to come back in 15 minutes, they would get another one. Naturally, most of the children ate the candy in a short time, before receiving the second one. However, a minority “resisted” and was rewarded with another marshmallow. The study was done in 1972, and only recently have we had access to the full results of the research. The researchers followed these children in the experiment for decades, measuring various aspects of their personal, school and professional lives, and came to an interesting conclusion: the children who waited for the second marshmallow were more successful personally, professionally, and were able to maintain healthier lifestyles. The obvious conclusion shows that the ability to forgo instant gratification is a determining factor in our success in many facets of life.

We believe giving up instant gratification is necessary to building a good long-term heritage. The examples are numerous, just look at the life trajectory of great entrepreneurs and investors, and we will see how much short-term pleasure was sacrificed to achieve their goals. However, we also believe that the ability to make sacrifices is not innate but a matter of strategy.

Returning to the marshmallow example, we see that children who waited did not do so through conscious self-deprivation. The successful were those who occupied themselves during the waits for the second marshmallow, making the passage of time less painful, or more pleasurable, and “faster”. Looking at the clock and counting the seconds only increases anxiety and, consequently, the possibility of failure.

The parallel with investments is relevant, after all, we give up money today to have a greater amount in the future. When investments are for the long term, the way of looking at the “wait” makes all the difference, not unlike what happened with children

and marshmallows. Those who follow the applications daily prolongs the wait by exposing themselves to the various temptations caused by market movements. At low, it is extremely painful to watch the devaluation of investments, when each passing day seems like an eternity, and the temptation to get rid of suffering (sell!) looms large with each passing minute. The solution to low moments doesn't involve divine patience or supernatural willpower: it involves discipline and a little creativity. Discipline to look only a few times a year (the fewer times the better), and the creativity to be busy while time works to multiply capital.

Investment

Financial planning is still an embryonic issue in Brazil, especially if we consider that a huge percentage of the population cannot even have money left over at the end of the month. And even those who manage to save do not do so in a planned way, often investing their money in products that give up profitability in exchange for convenience. In the paragraphs below, we will try to show how much the investor leaves “on the table” when he chooses investments that give “less headaches”, and, for that, we will show the power that time has in capitalizing.

We must be aware that, in addition to time passing differently depending on how we look at it, the very understanding of the effects of time profoundly changes the logic of any analysis. There are those who see the movements of stocks as a lottery, but there are those who see it completely differently. For those, investing in stocks has another dimension, just remember the Dow Jones, which was 29 points in 1896 and today is more than 17 thousand.

Those who choose their assets even better than just a stock index, and give it time to mature, can end up like Stewart Horejsi, now a billionaire, but who in the 1980s was on the verge of closing the

doors of his small solder. Hoewjsi made a fortune by buying 4,300 shares of Berkshire Hathaway, and holding them to this day. His initial investment of just under \$100,000 is now worth nearly \$920 million.

It's too optimistic to think that all amateur investors will be lucky enough to meet the next Warren Buffett decades before his success, but the example shows how much capital can multiply in 30 years. So having time working in your favor is essential, and the best way to do that is to start investing as early as possible. A few more years of investment can cure the effects of the worst crisis. We built an example to show how this happens:

- Assume that Investor 1 starts an investment at age 25, investing 10,000 reais in a given set of assets, with an expected yield of 14% per year, and maturing in 30 years. In the first year his portfolio was very worse than expected, and Investor 1 lost 40% of its total capital, leaving only 6 thousand reais. As of the following year, the portfolio had its expected performance.
- After 5 years, Investor 2 invested 10,000 reais in the same portfolio, applied at the same rate of 14%, but he did not experience any crisis and his portfolio had this yield for all the remaining 25 years.
- The average rate of Investor 1 was only 11.6% per year, due to the crisis event, compared to 14% per year obtained by Investor 2. Even so, at the end of the period, Investor 1 will have accumulated 305,700 thousand reais, while Investor 2 will have only 264,619, a difference of almost 41 thousand reais.

The lower average profitability ends up not being harmful to Investor 1, as his extra years compensated for the capital loss at the beginning.

Knowing the importance of the deadline, it is also necessary to choose the most profitable product within the risk profile of each one. To the common eye, an increase of 1% per year in profitability may not sound like a very big difference, especially in applications of shorter duration. If we leave 10,000 reais invested for a year, the difference that 1% has is very small, just 100 reais. We see the result over longer periods in another example below:

Rate	After 10 years	After 20 years	After 30 years
10%	R\$ 25,937.42	R\$ 67,275.00	R\$ 174,494.02
11%	R\$ 28,394.21	R\$ 80,623.12	R\$ 228,922.97
12%	R\$ 31,058.48	R\$ 96,462.93	R\$ 299,599.22

Two effects are clear from the table: the first reinforces our earlier demonstration of the power of time, as even the smallest of returns (10%) multiplied investment 17x in 30 years. What is most striking is the significant difference that each additional percentage point generates over a few decades of investment. At the end of the day, 1% can make a difference of more than 50,000 reais (from 174,494 to 228,923, in the example), more than 5x the initial investment.

In practice, a successful investment needs time and consistency of results. There is no secret formula to get rich quick, contrary to what many insist on saying. By definition, a short-term investment is greatly affected by market variations and this can bring very negative results to the investor. A Brazilian who decided to invest in stocks at the beginning of 2008 had his profitability extremely affected by the sequential crises since then, but the risk of this loss continuing for the next 30 years is low. Simply put, periods of volatility tend to cancel out the longer the investment term.

We saw above the power that time has in valuation, both in correcting losses and in creating value, and ideally we would use this to our advantage whenever possible. The best way to enjoy it is to have the discipline to remember the end result and the detachment to do anything else during the process. A seed, in time, becomes a tree, but no one spends their lives watching the process.

In investments, it is worth waiting for the second marshmallow.