ALASKA
ASSET MANAGEMENT

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“Everybody has a plan until they get punched in the mouth. Then, like rats, they stop in fear and freeze.” - Mike Tyson

Mike Tyson was one of the most feared men in boxing during the late 1980's, winning 37 straight fights and defending his title on 9 occasions, before his career derailed after his fight with James Douglas and several problems outside the ring. In 1987, on the eve of his bout against Tyrell Biggs, a six-foot-tall giant and Olympic gold medalist at the 1982 Games, a journalist commented to Tyson that Biggs boasted that he had "formulated a plan to defeat Mike." Biggs intended to use lateral movement and his greater wingspan to keep the smaller fighter at bay, something he was able to successfully accomplish through the first round and part of the second. Mike Tyson's response was eternal: "Everyone has a plan until they get punched in the mouth." At the end of the second round, however, Tyson showed that his response to the journalist had an almost prophetic character, and cut Biggs on the lips with a cross, changing the whole picture of the fight. Biggs' confidence went down the drain, as did the plan that had brought him success so far, and Tyson punished him for 7 rounds until the referee intervened. Perhaps victory was beyond Biggs' capabilities, but the lack of discipline he displayed in abandoning his plan at the first sign of adversity made his chances much worse.

Anyone who has ever been involved in any high-level endeavor, whatever it is, has probably felt the same butterflies in their stomach that Biggs felt when he took that first clean hit from Tyson. It is at that moment, right after the first major setback, that it becomes possible to separate who is really on the path to success from who will get lost along the way. All the hours of rehearsing, studying, training, preparing, or lack thereof, is reflected in the way we respond to adversity. The discipline of following a plan is not an innate skill, on the contrary, it goes against every animal survival instinct within us, but it is the fruit of hours of practice.
preparation, study, training and a lot of confidence in what is being done.

Jim Collins, in his book Great by Choice, tells the story of two expeditions destined for Antarctica, hitherto never explored by men, and tries to point out reasons for the success of one and the failure of the other. Both explorers Roald Amundsen, 39, and Robert Scott, 43, had resumes filled with extraordinary feats and made their expeditions within days of each other, in October 1911. However, the two expeditions had completely different experiences on the journey of 1,400 miles.

Despite the arduous climate, with average temperatures of -50°C, both expeditions had similar meteorological experiences. On the first 34 days of each trip, Amundsen and Scott had exactly the same ratio of good days to bad days, according to the book "The Last Place on Earth" by Roland Huntford. Weather conditions, therefore, were not decisive factors in the difference in results between the two leaders.

Roald Amundsen, leader of the successful group, is known in history for taking discipline to its extreme; everything was planned and everything was followed to the letter. His only goal was the South Pole, nothing else. To get there, he studied the Eskimo lifestyle, clothing, diet, means of transportation, and applied everything he learned to training his men. Amundsen bet on concepts already tested for centuries. He used dog sleds as his main means of transportation. Those who died on the way were used as a food source for the group. He put together a plan and an expedition structure that would get them home even if they didn't stop for gas at any depot along the way, but at the same time he also worked out measures so that his team wouldn't lose sight of any of them.

Everything was considered within its scope, including a march of fixed duration every day, regardless of weather conditions. That would be 15 to 20 miles a day, even if that meant resting during good weather or marching in bad weather. The 15-20 miles are much more significant than simply 24,135 to 32,180 meter stretches of ice and land. With this goal, the team's objective became tangible and concrete. The act of completing the daily march acted as a confidence booster for the group. On days with favorable conditions, when the group lasted 40 miles, there was time to rest. When the goal is explicit, the individual becomes the protagonist in the journey. There was no room for improvisation in Amundsen's schedule and his discipline took his men to the South Pole and back home without loss of human life.

Scott, meanwhile, was considerably less obsessed with putting together his expedition. As well as aiming for the South Pole, his group also had secondary objectives, a series of scientific experiments to be carried out along the way. The group also did not follow a marching plan, opting to march according to daily conditions.

Unlike Amundsen and his large squad of dogs, Scott decided to use motorized sleds and a smaller number of ponies. The nightmare began when the sleds' motors stopped working after five days, as they had never been tested in such a hostile environment. The ponies also did not adapt to those freezing temperatures and ended up dying little by little, leaving the transport of cargo to be done by their own men. The calculation of provisions was made considering success in reaching all the depots along the way, something that due to the failure in the transports did not happen, leaving your men even weaker. Scott's expedition embraced uncertainty and improvisation as part of the plan, making a disciplined approach virtually impossible. The result was tragic, all members of the expedition died.

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The challenge of maintaining discipline and coherence about investments is analogous, but fortunately less cruel, to the journey to the South Pole. Given that investment terms tend to be considerably longer than boxing matches or expeditions to unexplored continents, we believe that discipline is even more crucial to success. In the market, a setback equivalent to a blizzard or being punched in the face is to see your investment thesis being tested for months, perhaps years in a row, without having much to go on. To act compulsively in these moments, compelled by the most primitive feelings, is to abandon plans and hand over your returns to factors that are much less objective than those that usually guide asset prices in the long term. Every manager will inevitably go through moments like this, and we always like to remember the example of Jean-Marie Eveillard during the early 2000s. Eveillard was one of the exponents of global value investing during the 80s, 90s and early 2000s, It is known for delivering returns beyond all stock indices over the same period, managing to achieve returns of 15.7% per year from 1979 to 2004 (compared to 11.3% per year for the market index).

Eveillard's management was always characterized by investments in discounted assets, with a large margin of safety, but he himself attributes most of his success to the fact that he escaped the euphoria that happened over the years. At the end of the 90s, the financial market began to be dazzled by the advancement of the internet and the myriad of possibilities that would come with this new technology. Investments in technology companies began to have a huge speculative component, something diametrically opposed to Eveillard's beliefs. Following his methodology, and going against the tide, Eveillard stayed out of any type of telecommunications and technology company during the boom years. As a result, his fund has significantly underperformed its peers over this period. He suffered criticism from all his partners, some even questioned his mental health. His response was emblematic "I would rather lose half of our shareholders than half of our shareholders' money."

Jean-Marie's suffering didn't last just weeks or months, it was years of questions from clients, partners and especially from himself. Bailouts from disgruntled customers took the SoGen fund from $6 billion to $2 billion in the early 2000s; soon after, on March 20, 2000, the Nasdaq index reached its historic high. Eveillard's thesis, after years of insistence, proved to be correct and the overvalued assets of the American stock market fell sharply.

The years that followed rewarded Jean-Marie's investment discipline. Its fund remained positive throughout the correction of the years 2000 and 2002, crowned the success of its strategy with the best performance in the history of the fund in 2003, yielding 37.6% and the inaugural "Fund Manager Lifetime Achievement Award" given by Morningstar. Years later, Eveillard mitigated the effects of the 2008 crisis by avoiding stocks in the financial sector before the crash that was to come, further consecrating the fund. Today First Eagle manages over $100 billion in assets.

It's virtually impossible to try to put yourself in Eveillard's shoes. Seeing your investment thesis thwarted year after year is considerably more painful than any Mike Tyson jab, which is why success in the long-term money management market is restricted to so few individuals.

Those who invest with us in Alaska Black already know that the road to good results is long, uncertain and it is not uncommon for us to go through periods of heavy snowfall, such as the 53% drop between 2013-2016, or sudden setbacks, such as the 30% crash on May 18th, painful as Mike Tyson's crusaders. Maintaining discipline at these times is essential, and it is only possible because we have a lot of confidence, or if you prefer, faith, in our investment process and in the experiences of those who have been to the South Pole several times and today guide us to go there together.

Performance Attribution – Alaska Black

In the first Half of 2018, Alaska Black FIC FIC – BDR Nível returned +0.78%, against +4.29% of the IPCA+6% (benchmark).

Alaska Black FIC FIA II – BDR Nível I returned +0.68%, against -4.76% of the Ibovespa Index (benchmark). The accumulated CDI for the period was +3.17%.

	1S18	ITD*
Alaska Black FIC	0,78%	243,96%
Ibovespa	-4,76%	28,21%
IPCA + 6% a.a.	4,29%	116,19%
CDI	3,17%	90,13%

*Inception in 01/01/2012

	1S18	ITD*
Alaska Black FIC II	0,65%	66,09%
Ibovespa	-4,76%	17,71%
IPCA + 6% a.a.	4,29%	15,05%
CDI	3,17%	13,30%

*Inception in 03/01/2017

The breakdown of half-year performance by sector is shown below (Alaska Black Master FIA fund):

Strategy	**1S18**
Pulp & Paper	11,62%
Consumption	10,08%
Mining	3,40%
Petrochemical	2,48%
Cash	0,73%
Logistics	0,42%
Arbitrage	0,24%
Utilities	-0,03%
Steel	-0,06%
Costs*	-0,10%
Education	-0,24%
Technology	-0,80%
Industrials	-0,82%
Real Estate	-0,84%
Oil & Gas	-0,89%
Shopping Malls	-1,00%
Hedge/Macro	-21,82%
Total	**2,37%**

*The table above shows results of the Master Fund. The costs of the invested funds were different due to their performance fees being charged in different indicators.

The fund ended the 1st half of 2018 with the following characteristics.

1. **Investments and Divestments:** At the end of the first half of 2018, the fund consisted of twenty-one shares. Compared to the portfolio at the end of 2017, three new companies were added and one removed. The companies that started to be part of the portfolio are from the oil and gas, transport and education sectors. The paper that was substituted was from the pulp and paper sector.

2. **IRR:** The fund's expected internal rate of return at the end of the first half of 2018 was 23.16%. At the end of 2017, the fund had a rate of return of 23.42%.

3. **<u>Dividends</u>:** In the first half of 2018, the fund received in earnings (dividends and JCP – interest on own capital) 1.13% of equity at the end of the period.

4. **<u>Other income</u>:** The fund had a negative result of 21.82% in other revenues/expenses such as share rental, Arbitrage/Hedge/Macro operations and remuneration on cash in the period.

We see the fund as a holding company. In this way, we show in the table below the revenue and profit of the "Black holding", as well as how much these values represent of the fund's equity.

We compare the portfolio at the end of the first half of 2018 with the portfolio we had a year ago. The increase in revenue and absolute profit are a consequence of the increase in the fund's equity and the growth in the companies' operating income. As a percentage of Shareholders' Equity, the reduction indicates greater exposure to companies with higher multiples (Revenue/Market Value and Earnings/Market Value).

R$ Mil	30/06/2017	29/06/2018	Variation
Net Revenue	462,87	**1.235,60**	**166,94%**
Net Profit	20,80	**56,16**	**170,06%**

% of fund AuM	30/06/2017	29/06/2018	Variation
Net Revenue	153,22%	**94,48%**	**-38,34%**
Net Profit	6,88%	**4,29%**	**-37,62%**

Alaska Range

Alaska Range's profitability in the first half of 2018 was strongly affected by the deterioration of local assets. The fund dropped by

12.30% in the period against an accumulated CDI of 3.18%. Most of the losses are related to the short position in dollars against the real, which is present in some of the fund's strategies, such as: buying the Ibovespa in dollars, a relative strategy between selling the dollar against buying long interest rates, in addition to a directional short position.

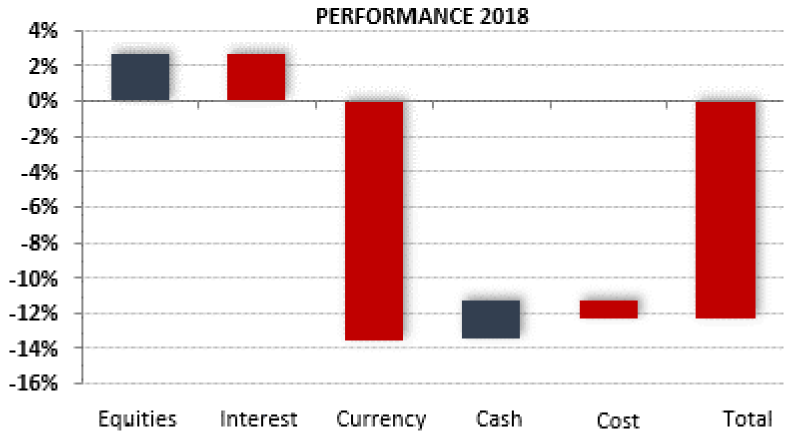
During this period, the 17.17% appreciation of the dollar against the real was the result of a combination of factors: strengthening of the dollar in the world; strong depreciation of some emerging currencies, especially the Turkish lira and the Argentine peso; reduction of the interest rate differential between Brazil and the US; and the vagueness of the electoral scenario and local fiscal situation.

Throughout 2017, the Brazilian currency underperformed its peers, despite the current account and trade balance being at levels that indicate that the real could already be devalued. However, given the scenario of constantly low inflation and the recovery of the local economy, the dollar in the domestic market became the hedge that, together with external shocks, accentuated the devaluation of the Brazilian currency.

Obviously, the scenario where the real suffered all the consequences of external shocks and local political uncertainty, while the stock market and interest rates remained unharmed, could not last indefinitely. Therefore, the dismantling of these positions came in May and June.

When the Central Bank began to act more forcefully in the foreign exchange market via swaps, market participants saw a “ceiling” for the dollar and this no longer served as a hedge for other positions. The dismantling movement was accelerated with the end of the truck drivers' strike, which resulted in an even more volatile market in June.

Even after a troubled semester and heavy losses, we did not have significant variations in positions. We continue with the thesis that local dollar-denominated assets are in an upward cycle and that the return can come both from asset prices in reais and from the exchange rate. Below is the breakdown of the half-year results:



Mercados

In the first half of the year, local markets were impacted by both internal events and external factors. In the domestic environment, the main events are related to the arrest of ex-president Lula, the truck drivers' strike and the clash between the market and the Central Bank on exchange rates and interest rates. On the external side, emphasis should be given to the strengthening of the dollar in the world and conflicts in trade relations between the United States and China.

In this environment, the Ibovespa, which appreciated by more than 14% in the year, ended the semester down 4.76%. The dollar, as previously mentioned, closed the semester with an appreciation of 17.17%, and the 10-year futures rate rose 129 bps.

In the economic field, we saw successive downward revisions of expected GDP for 2018 and a shock to current inflation after the truckers' strike. With the definition of elections in October, regardless of the result, a good part of the uncertainties reflected in asset prices should be reduced.

We appreciate the trust of our investors and partners.

Thank you,

Alaska Asset Management.

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