ALASKA
ASSET MANAGEMENT

BIANNUAL LETTER

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"For the great doesn't happen through impulse alone, and is a succession of little things that are brought together." - Vincent van Gogh

By making the decision to pursue a career as professional investors, we began a journey of constant improvement, and as much as we move forward, we feel further away from the end every day. So far, one of the few certainties we have found along the way is that there is no exact formula, algorithm or recipe for success in the market. Each investor is free to formulate his own investment process using the tools that suit him and the results are given in the most objective way possible. We've chosen to formulate our process inspired by some great figures, keeping in mind that what worked for them won't necessarily work for us.

Of all our teachers' lessons, none has stuck with us more than Charlie Munger's words about the importance of studying, even just the basics, various areas of human knowledge. For him, the wisdom needed to make good decisions comes from the ability of an individual to attack a problem from different angles, through the use of different analysis tools, and this is not possible when we specialize in just a handful of topics. With that in mind, we formulated an investment process that sums up the entire framework of classic financial concepts, which includes tools from Economics, Administration, Financial Mathematics and Accounting, and which also encourages us to use concepts from other areas, such as Psychology and Biology, among others.

Each different tool gives us the ability to see a problem from a new angle, and combining them is usually the best solution. An old saying goes, "A man who only has a hammer will see all problems as nails".

Analyzing a company from the perspective of Accounting will make us see a set of assets, rights and accounts receivable, arising from the production and offering of products and/or services, financed by third-party or own capital. If the tools are from Law, very possibly greater attention will be given to regulatory, labor, contractual and tax relations, in addition to legal aspects of the production or service activity carried out by the company in question.

None of the optics is objectively correct, it all depends on the problem we are facing. If we want to assess the current situation and financial health of the company, we will be more successful if we use accounting tools. Analogously, if we want to understand the effect of a new tax or regulatory update, we will probably have more success analyzing it from the perspective of Law.

By choosing to analyze companies using the calculation of the Internal Rate of Return of their cash flows in the long term (really long!), we ended up including much more than just finances in our investment process.

In order to imagine the behavior of a company in the long term, we need to evaluate a series of other factors, which only balance sheet analysis cannot cover. Can the company adapt well to changes in its business environment? What are the possible threats and predators in the sector in question? How prepared is the company to expand and increase its zone of influence and chances of survival?

These questions make us look for tools that are much more connected to biology than to the world of finance, after all, companies can be compared to living beings struggling for survival, energy and food (market), trying to evolve and adapt according to changes, whether random or not. , occur in their midst. The old maxim, “Survival of the fittest”, derived from Charles Darwin's Theory of Evolution, which we will choose as the focus due to the various nuances and practical applications to the world of investments, also applies to them.

Darwin's theory was the result of his observations during travels in Africa, Australia and the Americas. He documented several species of animals, with special interest in the occurrence of small physical differences between animals of similar species, but with geographically different origin.

In Galápagos, Darwin noticed that the species of birds present there were very similar to those found in the continental part of Ecuador, except for some differences in their beaks. Years of studies led him to the conclusion that the Galápagos bird species were originally inhabitants of the continent, which, for some as yet unknown reason, acquired characteristics that differentiated them from their counterparts. The evidence led him to imagine that some individuals of the mainland species had descendants with small variations in their beaks that made them better adapted to the food context of the island, and, therefore, ended up prospering more and propagating these adaptations in a hereditary way.

He then formulated the theory that species are capable of gradual changes over time, through a process of natural selection and hereditary transmission of the characteristics best adapted to the context in which they are inserted, thus generating different species over time. of time. Extrapolating this idea, Darwin came to the conclusion that every complex organism originated from simple systems, which underwent successive modifications and adaptations over time.

Darwin's studies generated a series of ideological debates, mainly by the number of scholars who defend creationism and the idea that the origin of life cannot be explained only by the theory of evolution, but also depends on the will of a superior being. One of the main arguments of this group of people is based on the idea that some biological systems are irreducibly complex, contrary to Darwin's maxim.

Irreducibly complex systems are theoretically composed of a series of interdependent parts that perform specific and necessary functions for the operation of the whole, but which alone are irrelevant. Being irrelevant by themselves, they could not have originated through simpler organisms, and therefore must have had a higher origin. It is not up to us to list the biological fallacies of this type of argument, but to try to draw lessons to improve our asset selection and company analysis.

Empirically, we noticed that the same evolutionary dynamics of Darwin applies to a relevant percentage of the companies we analyzed.

Most businesses started from a simple system, gaining complexity after a series of successive changes, with the difference that they do not occur randomly or unplanned. The idea of irreducibly complex systems being unable to emerge is also applicable to the corporate universe, with some exceptions in the sector, and sheds light on our way of assessing the depth of certain competitive advantages.

One of the recent examples that best illustrates these two theses is XP Investimentos, in our opinion, one of the greatest success stories in the Brazilian financial market. It was born as a simple structure, in the hands of entrepreneurs with good ideas and the ability to gradually transform a small office of autonomous agents and financial educators into the greatest protagonist in the democratization of the national financial market. Looking back on the company's history, it's hard not to wonder how the big banks passively watched the growth of something so transformational. We answer this question by recalling Darwin's view: complex structures are not born "out of nowhere". The competitive advantage that XP built in relation to banks was exactly the fact that it was born simple, evolving and going through several learning stages, impossible to replicate in a short time. It wasn't for lack of resources or lack of capacity, but the fact that all attempts to emulate the business model were done inorganically, without the learning and maturation process that the formation of something transformational requires. When the path to competition became clear, the network character of the business had already deepened the competitive abyss even further, and the solution was the acquisition of the company by Itaú.

The fallacy of irreducible complexity also illustrates why so many foreign companies fail to enter Brazil. There is no lack of examples of foreign giants that terrified their competitors when they announced their entry into the country, but which in the end were unable to reproduce the same success, closing their doors completely or parking in mediocre positions in the market.

Wal-Mart entered the country with the promise of putting an end to national supermarket chains. Today, almost 25 years later, it is still struggling to find its market niche, while national supermarkets still occupy the top of the market share table.

Few remember, but when Wal-Mart bought the Brazilian retail chain Bompreço, with 118 units, for around US$ 300 million in 2004, now having 143 units in Brazil and 20 thousand employees, the market was very convinced that local retailers would suffer terribly. Wal-Mart was the #1 company on the Fortune list in 2004, earning $260 billion with 1.5 million employees worldwide, ahead of Exxon with $213 billion and General Electric with $195 billion. . Wal-Mart was the biggest, best, and most powerful retailer in the world.

Retailer Zara is just one of many examples of foreign retailers that promised an aggressive growth pace when it came to the country in the early 2000s, but ended up lagging behind national retailers such as Lojas Renner, Riachuelo and Hering.

Hertz, the largest car rental company in the world, is yet another that promised to change the dynamics of the sector and which, after years without being able to replicate its international success, ended up having its operation acquired by a national company in 2017.

Most foreign companies that sought a Brazilian operation enjoyed prominent positions in their respective markets. As a result, they neglected the entire learning process needed to adapt to a new market. We reiterate, there is no system capable of being born complex.

From our experience, we can see that any announcement of a new foreign entrant is capable of sending chills down the spine of investors in domestic companies. However, those who stopped buying shares in national companies for fear of foreign "bogeymen" lost some of the biggest "beats" of the last 10-15 years.

Overestimating the ability of a foreign group to adapt to the domestic, hostile and inhospitable business environment is just one of the examples of mistakes made when we neglect broader analyzes and prioritize only specific and traditional finance tools. Companies are complex organisms, made up of much more than just a handful of lines on financial statements. If we try to understand the sum of the parts to understand the whole, we will certainly get lost in the infinity of relationships that make up a company listed on the stock exchange, ranging from interpersonal relationships to complex dynamics involving other companies, markets and government relationships.

That's why we highlight Munger's lesson and his mental models again, so that we can use the best tools to define what really matters in our investment universe. Obviously, we do not neglect financial analysis when selecting our investments, but we cannot depend on them alone. It would be a huge waste not to use the countless hours spent by scholars in assessing the relationships between species that share the same environment, given that many parallels can be drawn with corporate competitive environments.

We do not know exactly why there is still no specific graduation course in asset management in variable income, given that there is training for practically any professional activity. An academic background in fund management would be very plausible. But there is not. There are courses that deal with subjects that appear in the activity, but not management itself. We suspect that the reason is the immensity of the required curriculum. Economics, Accounting, Financial Mathematics, Econometrics, Administration are just the tip of the iceberg of a much deeper subject.

Performance Attribution – Alaska Black

In the second half of 2018, **Alaska Black FIC FIA - BDR Nível I** registered +29.36%, against +4.10% of the IPCA+6% (benchmark).

Alaska Black FIC FIA II - BDR Nível I registered +30.48%, against 20.79% of the Ibovespa Index (benchmark). The accumulated CDI for the period was 3.15%.

Alaska Black Institucional registered +15.04%, against 20.79% of the Ibovespa Index (benchmark). The accumulated CDI for the period was 3.15%.

Alaska 70 Icatu Previdenciario FIM recorded +10.63%, compared to 11.77% for the IMA-B Index (benchmark). The accumulated CDI for the period was 3.15%.

	2S18	ITD*
Alaska Black FIC	29,36%	344,93%
Ibovespa	20,79%	54,86%
IPCA + 6% a.a.	4,10%	124,77%
CDI	3,15%	95,98%

*Inception in 01/01/2012

	2S18	ITD*
Alaska Black FIC II	30,48%	116,72%
Ibovespa	20,79%	42,18%
IPCA + 6% a.a.	4,10%	19,77%
CDI	3,15%	16,90%

*Inception in 03/01/2017

	2S18	ITD*
Alaska Black Institucional	15,04%	100,46%
Ibovespa	20,79%	27,28%
IPCA + 6% a.a.	4,10%	18,07%
CDI	3,15%	14,92%

*Inception in 21/02/2017

	2S18	ITD*
Alaska 70 Icatu Previdenciário FIM	10,63%	9,29%
IMA-B	11,77%	8,08%
Ibovespa	20,79%	3,95%
IPCA + 6% a.a.	4,10%	6,82%
CDI	3,15%	4,19%

*Inception in 02/05/2018

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

Strategy	2S18
Hedge/Macro	16,08%
Consumption	9,79%
Oil & Gas	4,12%
Logistics	3,68%
Shopping Malls	1,54%
Industrials	1,22%
Cash	0,85%
Technology	0,81%
Mining	0,54%
Utilities	0,43%
Arbitrage	0,16%
Real Estate	0,06%
Steel	0,01%
Costs*	-0,10%
Petrochemicals	-1,20%
Education	-1,29%
Pulp & Paper	-1,75%
Total	**34,94%**

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

The fund ended the 2nd half of 2018 with the following:

1. **Investments and Divestments:** At the end of the second half of 2018, the fund comprised twenty shares. In the

second half of the year, one company left the pulp and paper sector and one entered the consumer sector.

2. **<u>IRR</u>**: The fund's expected internal rate of return at the end of the second half of 2018 was 22.24%. In the first half of 2018, the fund had a return rate of 23.16%.

3. **<u>Dividends</u>:** In the second half of 2018, the fund received in earnings (dividends and JCP – interest on equity) 0.60% of equity at the end of the period.

4. **<u>Other revenue</u>**: The fund had a positive result of 17.09% 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 second 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 Profit/Market Value) and also an increase in the multiples of invested companies due to the appreciation of the shares.

R$ Thousand	29/12/2017	31/12/2018	Variation
Net Revenue	705,02	**1.471,39**	**108,70%**
Net Profit	41,02	**81,03**	**97,52%**

% of fund AuM	29/12/2017	31/12/2018	Variation
Net Revenue	94,43%	**69,99%**	**-25,88%**
Net Profit	5,49%	**3,85%**	**-29,85%**

Alaska Range

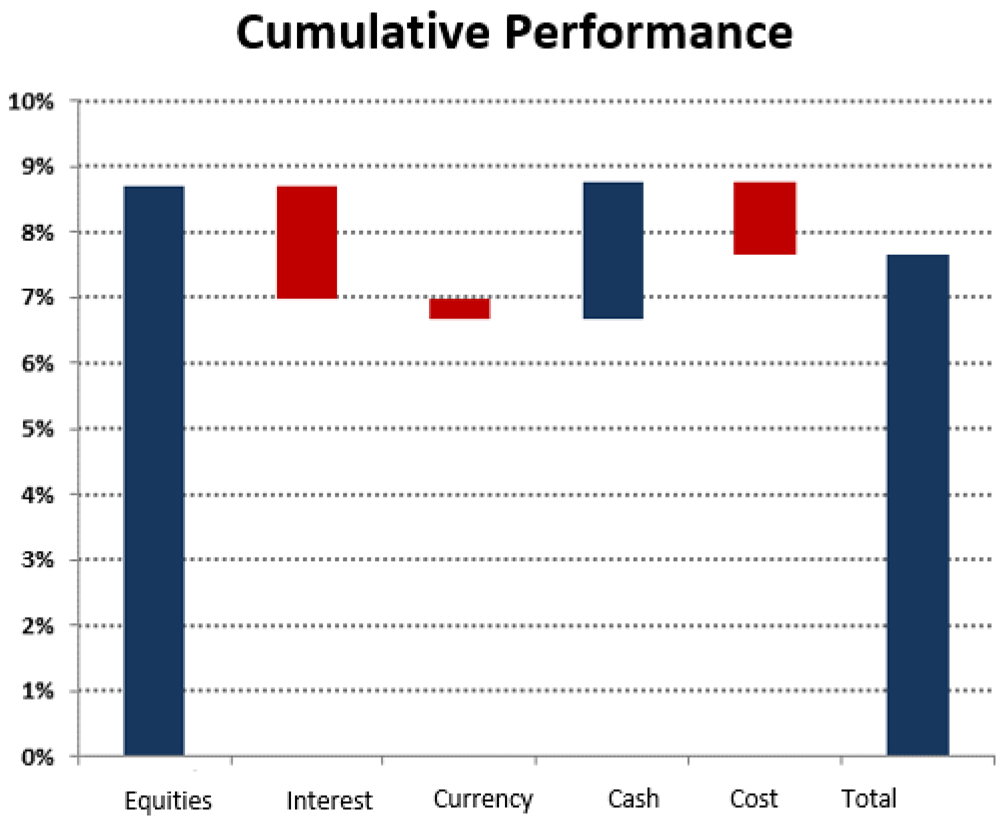
In the second half of 2018, the fund posted 7.64% gains against a CDI of 3.15%. Even though it was a period of great fluctuations in local assets, mainly due to the elections, the fund did not change its main thesis of a constructive scenario for Brazil in the coming years. As election uncertainties diminished, it was possible to increase our positions aligned with this country-friendly bias.

Part of the fund's favorable result is due to the depreciated levels of local assets at the end of the first half, mainly as a result of the truck drivers' strike. Another important factor that weighed on the good performance in this period was the result of the elections, which was very well seen by the market, mainly the renewal of the federal legislature.

The combination of these two factors, the depreciated level of assets and optimism with the outcome of the elections, resulted in a strong appreciation of the Ibovespa (+20.79%) and a generalized drop in rates on the future interest curve. Among the major local asset classes, only FX underperformed. After large variations in the period, it ended the semester practically stable.

Variable income ended up being the fund's main source of earnings in the semester. In addition to the directional gains, the fund also benefited from the superior performance of its equity portfolio against the Ibovespa and from the short position in the S&P 500, hedging our constructive positions for Brazil.

ASSET MANAGEMENT



Markets

As mentioned above, the elections were the main source of concern in the second half of 2018. There were several reasons: first, Lula's leadership in the electoral polls until his candidacy was challenged by the STF. After that, the inheritance of Lula's votes for Haddad and Ciro Gomes' leadership in the second round simulations represented other major reasons for apprehension. At the same time, the market's favorite candidate, Geraldo Alckmin, had a disappointing performance in the polls, even with the highest TV airtime in electoral advertising.

Jair Bolsonaro, who until then had led the vote in the first round, was seen by the establishment as someone incapable of leading the country. The lack of resources and television time in his campaign was the main argument of political analysts for his inevitable fall in the polls.

When the candidate Jair Bolsonaro suffered an attack in Juiz de Fora (MG) during the election campaign, he gained traction in the polls even though he was absent from the main debates. People even believed in his victory in the first round, which did not happen. However, Bolsonaro was victorious by a wide margin over the PT candidate, Fernando Haddad, and legislative turnover was surprisingly high. The PSL elected 52 federal deputies and got the second largest bench in the Chamber of Federal Deputies. In the Senate, 4 were elected by the same party. In the second round, the expected scenario was consolidated and Jair Bolsonaro was elected President.

Local assets were set aside until the definition of elections in the second round. After Jair Bolsonaro's victory at the end of October, the external environment took center stage. The markets experienced a great realization after the release of economic data from the United States, which indicated a reduction in the pace of growth of its economy. The inversion of the US interest rate curve and the course of the US interest rate hike cycle by the Fed also contributed to the downward scenario.

Even after these sequences of events, local assets performed well in the second half of 2018. The Ibovespa, as already mentioned, appreciated significantly by more than 20% in the period. Part of this increase is due to the depreciated level at which the assets were.

In the interest market, the rates dropped continuously after reaching maximum stress in the first half of September, when Lula was still the leader in the electoral polls. Releases of milder inflation rates and the result of the electoral process contributed to the drop in interest rates.

The exchange rate, even after devaluing more than 19% in the first half, had room for an additional 8% devaluation until the elections. This asset, which is considered the best instrument for hedging local positions, closed the second half of the year practically stable due to the appreciation it showed after the elections.

We appreciate the trust of our investors and partners.

Thank you,

Alaska Asset Management.