BIANNUAL LETTER

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THE BEGINNING

Starting to invest in stocks awakens a person's most visceral and primal emotions. It's similar to what first-time moms and dads feel. It's an emotional rollercoaster. If one day you think you're going to die crazy from sleep deprivation, the next you're in a state of grace with your child cradling in your arms, peaceful moments in the baby's first months at home are rare. Crying, diapers, breastfeeding, cleaning the umbilical cord, fevers and fear of continuing to breathe while sleeping are analogous neuroses to what the novice investor has when he imagines the size of the damage that apocalyptic news can cause in his stocks. Fears about what Trump or Bolsonaro tweets and their potential bloody impacts on the portfolio, fears about how big of an impact on the stock the frustration of the next quarterly result will have. Finally, the investor starts to suffer the same side effects as first-time parents: sudden mood swings, tiredness, change in appetite, sleep deprivation, acute anxiety attacks.

However, as soon as fathers and mothers stick with the initial plan to raise and educate their children (usually yes, thank goodness!), certain typical things start to happen. Children go through the third month and the colic begins to cease, it is one of the first major milestones and improvements in the quality of life of parents. It would be like beginner investors starting to understand that there are news that are noise and others that are signals. The vast majority are noises that serve only to shake prices and generate clicks/signatures for those who produced them, they do not indicate changes in the fundamentals of the companies that are invested. But as first-time parents or budding investors, there's a lot of learning ahead.

A way to cut corners, both for neophyte investors and first-time parents, is to rely on the wisdom of those who have already followed these same steps, as learning by making mistakes can be very painful and only feeds the insecurity inherent in both subjects. To shorten this suffering, not only accept it, but seek help from more experienced people who are truly well intentioned. Talk to your elders, read about the subjects, there is extensive literature available that will allow you to learn from the mistakes of others.

Time will inevitably pass, and fears will gradually dissipate. Parents begin to understand their children's crying, easily separating what is hunger, sleep, just a harmless "morning", from what is really serious. The investor comes to understand that a sudden rise based on speculative news can be just a flash in the pan or that the monitor's reddish screen is nothing more than a typical and commonplace correction, not an unequivocal sign of Armageddon. It will become increasingly clear that both tasks will last a lifetime. The hours of study invested in the education of children (or in the management of investments) will not bring immediate effects. On the contrary, teaching solid values, developing virtues and investing in academic knowledge will not make your son or daughter a genius or an educated savant tomorrow. In fact, nothing you do extraordinary and profoundly good for your child today will cause a sudden jump in behavior tomorrow. A parent's continued discipline, dedication, and love will have an impact in the long run, not the week after. Nothing relevant happens overnight.

RECENCY BIAS

The history of Brazilian variable income began at the end of the 19th century, but it was in the mid-1960s, with the regulation of stock exchanges, that it took on the form we know today. Even with a growing penetration of banking services during this period, the variable income market failed to reach the levels of developed countries; today we are still around one million direct investors in the stock exchange, a measly 0.5% of the population. That doesn't compare to about 50% of the population in the United States, or about 150 million people. If we look at emerging countries, the magnitude changes, being much less than in the US, but still several times Brazil. In India they are about 2% of the population, 4x the Brazilian proportion. We attribute part of the "blame" for this phenomenon to the years of economic instability and hyperinflation, but mainly to the very high real interest rates practiced in the country, which ended up getting used to a generation of potential investors with yields above 1% per month without any risk (volatility).

Nowadays, we observe a different phenomenon. Due to the reduction in global growth, interest rates are increasingly low, many of them at negative levels. For Brazil, this translates into very compressed real interest rates in relation to historical levels, breaking the paradigm of the Brazilian investor's relationship with his savings, after all, the times of “1% per month without risk” are unlikely to return. The search for returns will practically force a wave of new investors into the world of investments in variable income. Although we are happy with the dissemination of the investment culture in Brazil, we know that no growth process is painless. It will be traumatic for those who don't seek to understand the changing nature of the stock market, yet we are convinced that investing is something everyone can (and should!) do.

We believe that the greatest source of avoidable investor error is psychological rather than technical in nature. This means that we must be extra careful not to let emotions affect the execution of our investment processes (whatever they may be). Fear, anxiety, stress, relief, social pressure, happiness, pain, sadness, tranquility, disappointment, optimism can significantly alter an individual's perception, especially in shorter terms, leading to making wrong decisions. The study of these economic-financial misconceptions of a behavioral nature has been attracting the interest of more and more professionals and is called behavioral finance.

The list of biases documented by behavioral finance scholars is extensive and we can associate them with many recurrent irrational phenomena in the market. The formation of bubbles in financial assets, already mentioned in previous letters, is an old and global phenomenon, the result of a bias that leads investors to assume herding behavior: they pay very high prices simply for fear of being left out of the trend, abandoning your individual analysis and investment process.

In addition to herd behavior, another important bias is known in the literature as recency bias, which consists of assigning disproportionately large weights to recent events in the decision-making process. Psychologically biased behaviors are present from early childhood and extend into matters beyond the world of investment forecasting and analysis. The predisposition is such that it even interferes with how we interpret our gastronomic experiences. Researchers have assessed that the time it takes to eat a food again is directly correlated only with the end of our last gastronomic experience involving that same food. When the high point of the meal is at the end, we are much more eager to repeat the experience than we would be at the beginning, once again demonstrating our brain's emphasis on more recent memories.

Effects of this type of bias are easily observed in the recent history of the Brazilian economy. A little over a year ago, the same market that today calls for expressive cuts in interest rates, practically begged for a shock in order to contain the devaluation of the real, which seemed to have no limit thanks to the truck drivers' strike and electoral uncertainties. Investors attributed greater weight to the weeks of instability that depreciated the currency than to the country's inflation and growth path in the medium term. We can also mention the explosion in prices for real estate developments in São Paulo in the period 2011-2013. There was a belief that rents would continue to grow at the same pace as in previous years, reaching levels that we will probably only see at the end of the current cycle of economic recovery.

We in the fund industry also deal with recency bias every year when we observe the behavior of contributions and redemptions in periods of new highs and lows on other occasions, we highlight the importance of taking advantage of price drops to accumulate more assets, assuming that often the value of the asset in question remains unchanged in the short term. Following this logic, the moment of greater investment in Alaska funds should coincide with periods of poor performance, but we noticed exactly the opposite. During the fund's drawdowns, we noticed a substantial reduction in “investments” (we prefer the word investments) that return only after we reach new highs.

The list of mistakes made by both individual and institutional investors is extensive and will likely continue to grow with each new “extreme concern” in the market. The presence of fear interferes with the perception of current and future risk, causing investors to make irrational decisions when buying and selling assets. Most of the time, the increased perception of risk leads to an overestimation of the probability of catastrophes, fear of immediate danger (reduced discount time and increased cost of capital), loss of independence, search for tips and third-party confirmations, increased distrust and uncertainty.

Even knowing this, there is no magic formula to completely get rid of biases, after all, many instinctive behaviors contributed to the survival of our ancestors in hostile environments. However, we observed that a pattern present in successful investors is the ability to ignore impulses and misconceptions in times of stress and continue with their respective investment processes. We've noticed that the longer the investment horizon, the less likely you are to fall into behavioral traps.

One of the icons of modern value investing, Joel Greenblatt, wrote important pieces about the value that exists in extending investment terms so that we can effectively arbitrate changes in the behavior of market participants. By choosing to invest for really long terms (preferably indefinite), we have the advantage of not having to do anything at times when many investors end up acting on impulse. With each new turbulence or euphoria, the market presents a range of new investment opportunities provided by movements of short-term participants. Time is one of the best competitive advantages an investor can have in the market and it is available to anyone.

APPRENTICESHIP

There is no didactic course that teaches this objectively, but an important step in that direction is to have an increasingly expanded investment horizon. As market participants have radically different investment timeframes, objectives and “pain thresholds”, variations in market conditions will bring about different reactions from each one. Those who are tied to daily prices, nervous quotaholders and short-term return targets will eventually be forced to react at the wrong time, sometimes selling good assets in declines and other times buying “fashionable” assets to chase their peers, these movements create opportunities huge for those who have it are not stuck with the short time window.

Greenblatt named the process of extending the investment period "time arbitrage". By not giving excessive weight to recent events that do not change the long-term prospects of assets, the independent investor has a clear arbitrage opportunity in relation to market participants forced to make short-term decisions.

In times of highs, the proliferation of "geniuses" promising from magic formulas to get rich on the stock market to investments with very high fixed income (supposedly without risk!) still shows us that the average investor is liable to fall into traps that harm the development of a healthy and lasting investment culture in the country. There is a high chance that neither the euphoric nor the desperate person is correct in their predictions. By stating that "trees do not grow to the sky", "few things go to zero" and "few things are more dangerous than extrapolating recent events into the future", Howard Marks summarizes the idea that recent events can lead to lapses in the judgment of investment decisions.

CONSISTENCY, PATIENCE AND VALUE INVESTING

Any endeavor that aims at truly grandiose results involves an inevitable liturgy; it is not possible to become an Olympic champion in 20 days, let alone give birth to a child in a month or educate him completely in just five years. It takes a consistent, coherent evolution process and a long maturation time.

At the beginning of the journey, even anchored in readings, studies and guidance on possible difficulties throughout the process, we see that theory is not a substitute for practice. We are hit by the feeling of lack of control over the variables, subjecting us to anxiety peaks that compel us to (in most cases) irrational actions. Learning may be slow, but it is inevitable, and consulting with those older than you who have been through the same situations over and over again can give you a head start on how to proceed down the path. The less weight we give to "shortcuts", the less time we waste looking for "silver bullets", the more time we will dedicate to what really matters.

Performance Attribution – Alaska Black

In the first half of 2019, **Alaska Black FIC FIA - BDR Nível I** registered +14.40%, against +5.19% of the IPCA+6% (benchmark). The accumulated CDI for the period was +3.07%.

Alaska Black FIC FIA II - BDR Nível I recorded +16.15%, against +14.88% for the Ibovespa Index (benchmark). The accumulated CDI for the period was +3.07%.

Alaska Black Institutional registered +4.88%, against +14.88% of the Ibovespa Index (benchmark). The accumulated CDI for the period was +3.07%.

Alaska 70 Icatu Previdenciario FIM recorded +3.82%, against +15.21% for the IMA-B Index (benchmark). The accumulated CDI for the period was +3.07%.

	1S19	ITD*
Alaska Black FIC	14,40%	408,99%
Ibovespa	14,88%	77,90%
IPCA + 6% a.a.	5,19%	136,74%
CDI	3,07%	102,01%

*Inception in 29/12/2011

	1S19	ITD*
Alaska Black FIC II	16,15%	151,72%
Ibovespa	14,88%	63,34%
IPCA + 6% a.a.	5,19%	25,97%
CDI	3,07%	20,49%

*Inception in 03/01/2017

	1S19	ITD*
Alaska Black Institucional	4,88%	110,24%
Ibovespa	14,88%	46,22%
IPCA + 6% a.a.	5,19%	24,18%
CDI	3,07%	18,46%

*Inception in 21/02/2017

	1S19	ITD*
Alaska 70 Icatu Previdenciário FIM	3,82%	13,46%
IMA-B	15,21%	24,52%
Ibovespa	14,88%	19,42%
IPCA + 6% a.a.	5,19%	12,35%
CDI	3,07%	7,40%

*Inception in 02/05/2018

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

Strategy	1S19
Hedge/Macro	10,94%
Logistics	3,65%
Consumption	3,26%
Oil & Gas	1,48%
Education	1,44%
Utilities	1,24%
Shopping Malls	0,92%
Cash	0,67%
Arbitrage	0,09%
Steel	0,01%
Real Estate	-0,01%
Costs*	-0,10%
Industrials	-0,17%
Mining	-0,47%
Technology	-0,51%
Pulp & Paper	-0,92%
Petrochemicals	-3,89%
Total	**17,64%**

*The table above shows the 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 2019 with the following:

1. **Investments and Divestments:** At the end of the first half of 2019, the fund consisted of twenty shares. There was no exit or entry of companies in relation to the end of 2018.

2. **<u>IRR</u>**: The fund's expected internal rate of return at the end of the first half of 2019 was 20.54%. At the end of 2018, the fund had a rate of return of 21.14%.

3. **<u>Dividends</u>:** In the first half of 2019, the fund received in earnings (dividends and JCP – interest on equity) 0.53% of equity at the end of the period.

4. **<u>Other Revenue</u>**: The fund had a positive result of 11.60% in other revenues/expenses such as share rental, Arbitrage/Hedge/Macro operations and remuneration on cash in the period.

We see the Alaska Black 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 2019 with the portfolio we had a year ago. The absolute increases in revenue and profit are consequences 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 expansion of the multiples of investee companies due to stock appreciation.

R$ Thousand	29/06/2018	28/06/2019	Variation
Net Revenue	1.343,57	**2.353,17**	**75,14%**
Net Profit	90,13	**152,41**	**69,09%**

% of fund AuM	29/06/2018	28/06/2019	Variation
Net Revenue	102,74%	**74,20%**	**-27,78%**
Net Profit	6,89%	**4,81%**	**-30,27%**

Markets

In the first half of 2019, local asset prices continued to be mostly affected by news from the political environment. After a strong appreciation of assets at the beginning of the year, which can be attributed to some factors such as optimism with the new government and a calmer external environment compared to the end of 2018, market participants focused their attention on how the government newly elected would deal with the country's fiscal situation, and this necessarily involved a reform in the social security system.

After the government presented a text proposing a pension reform, whose economy over the next ten years exceeded one trillion reais, the market renewed its optimism and the Ibovespa hit 100 thousand points for the first time in history. The big question became how a government without a base in Congress would manage to approve a reform considered unpopular. The first steps of a long road in Congress have already been taken towards the approval of the pension reform after the end of the first half of 2019: approval in two commissions and in the plenary of the Chamber in two shifts. Now, the approval of another committee and two rounds on the Senate floor are missing. Because it was a long and time-consuming process and the new government did not have a consolidated parliamentary base, the Planalto's capacity for political articulation was closely monitored by the market.

Over the course of the semester, trying to remain faithful to the speech of the electoral campaign, the president sometimes criticized Congress, via social networks or even on TV programs; the result of this was a worsening of the president's relationship with the main party leaders, which culminated in a growing apprehension among market participants. The relationship between Planalto and Congress continued between ups and downs until mid-May, when the presidents of the three powers made a pact in favor of the country. This alignment between the powers and popular demonstrations in favor of the government and its proposals made the political environment more favorable to the approval of the pension reform, whose effect was promptly reflected in the prices of local assets.

Parallel to the political scenario, local economic activity in the first semester was disappointing; political noise and uncertainties regarding the approval of the pension reform undermined the confidence of consumers and businessmen, which had seen strong increases after the 2018 elections. In addition, we also had some specific factors that affected the recovery of activity, such as the Brumadinho disaster/ MG and a drop in exports, mainly due to the recession in Argentina. In the external environment, we saw consecutive downward revisions in world growth, part of this slowdown can be attributed to a more troubled political environment, mainly due to the trade war. The result of this global economic slowdown was a more dovish stance by the world's main central banks, which culminated in a generalized drop in interest rates in the markets.

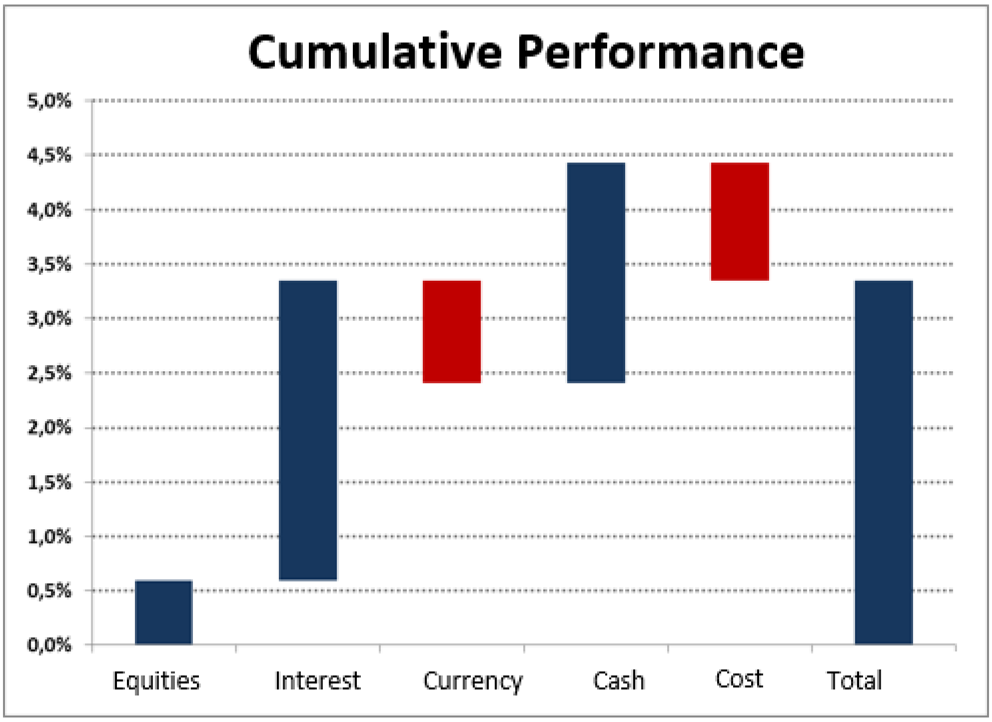
Alaska Range

In the first half of 2019, Alaska Range fund returned 3.35%, while its benchmark, the CDI, returned 3.07%. As described in the Markets section, in the first half of 2019 the prices of local assets were strongly affected by political events, but this did not change our main investment thesis: local assets are in an appreciation cycle, both in local currency and in dollars.

The fund's main source of earnings during this period was the short interest rate position, which, after remaining at the same level for most of the semester, fell sharply with the sum of a few factors: advances in the processing of the pension reform, followed by economic data showing stagnation in activity, benign inflation rates and a possible SELIC cut cycle during the course of the second half.

Although the Ibovespa appreciated close to 16% in the period, gains in variable income were modest. Part of this reason was the performance of our equity portfolio below the Ibovespa itself and the sharp increase in the S&P 500 in the period (17.35%), instruments used as a hedge by the fund.

In the currency market, we started the year with an exposure close to an asset sold in the dollar against the real, which was the main source of gains at the beginning of the year. However, after the real appreciated close to 6% against the dollar, political noise and anemic economic activity caused the real to depreciate more than 12% against the US dollar. This movement led us to drastically reduce our exchange exposure. This position adjustment resulted in a loss close to 1% in the period; at the end of the semester, the variation of the real against the dollar ended up being close to stability.



We appreciate the trust of our investors and partners.

Thank you,

Alaska Asset Management.