ALASKA
ASSET MANAGEMENT

BIANNUAL LETTER

1S2020

“From the future, we only know that it will not be as we want.”

The beginning of the year promised. We had finally overcome the pension reform hurdle, an unprecedented number of new investors began to enter the stock market and our conversations with companies from all sectors signaled that the economy was finally picking up steam. Everything seemed fine, until it wasn't. Reality changed quite abruptly and with that we had to go through a process of reassessing our investments. Last year, we opened up about our work plan, the way we analyze and select businesses to invest in, and the way we view the positions we hold in our funds. During 2020, we have the opportunity to revisit this investment process and talk about what we do when we are faced with an unprecedented situation that overshadows any previous assumptions.

Our investment methodology depends a lot on the ability to be able to estimate cash flows for the companies we are analyzing in the long term. To this end, we base our calculations on visions and structural assumptions of the Brazilian economy, companies and also their respective markets. Time and again we have seen temporary shocks in the economy (or in the political environment) bring sharp negative effects on asset prices; examples of this were Joesley Day, elections, Brexit and the truck drivers' strike, to name the most recent ones. On all these occasions, we did not see possible changes in the long-term economic fundamentals. As a result, we did not have to worry about changing our way of thinking and were guided only by variations in IRR (implicit internal rate of return – explanation present in the letter for the second half of 2019) arising from changes in company prices. The situation brought about by the Covid-19 crisis, however, was more similar to a 2008 subprime crisis than to those mentioned above. We saw a drop in the prices of virtually all companies on the exchange coupled with global economic uncertainty of unknown duration. Since the election of Dilma, in 2014, we have not seen a scenario so full of uncertainties, at least in the short term. It didn't take long for us to realize that the crisis would have a beginning, a middle and an end, and that most of the uncertainties that initially concerned us would have a limited duration.

However, due to the obvious challenges of creativity, intelligence, agility and competence that the crisis demanded from companies, we chose to give more weight to what was already one of the main pillars of our process, and one of the fundamental bases for any successful company: its people . Confidence in a company's management team and controllers turns out to be an essential shortcut for decision-making during uncertainty. To take advantage of bargains, we opted for agility in decision-making and not wasting excessive time trying to estimate exogenous variables in an unknown scenario. We focused on what we already knew and looked for poorly priced opportunities.

People, culture and performance

The theme we chose for this letter may seem repetitive to anyone who has already read the letter from the second half of 2017, after all, in it we mentioned the power that competent people united by the same purpose have in the corporate world (and also outside of it). However, the current moment is perfect to highlight the essential tools for those who invest in companies aiming at longer terms and with the intention of taking advantage of clear opportunities that the market offers us. We do not want to reinvent the wheel with complex mathematical concepts or extremely complicated analyses, but rather reiterate how important non-quantitative aspects can be when discovering where market asymmetries are. This year, being well informed is no longer a privilege, financial mathematics is the minimum standard among institutional investors and technology is increasingly helping to close the information gap that may exist between individuals and professional managers. For long-term investments, there are no magic rules or even less ready-made formulas to identify what is well or badly priced. We need to go beyond what is objectively presented in balance sheets, in institutional marketing works better known as “press releases” of results, and understand what, or rather, who is behind the numbers of a given company.
One way to do this is to understand that a company is not just made up of assets, liabilities and corporate processes. Behind every number and metric presented to us is the set of employees of a given company. And, behind the performance, conduct and delivery of each of these people is a series of

elements, visible or not, that we can define as the company's corporate culture.

To begin to understand the effect that a corporate culture can have on a company, we first need to understand its generating process. Generally speaking, most corporate cultures are born at the top: an entrepreneur, senior executive or leader of a given company develops a vision/philosophy/work ethic and tries to implement it in conjunction with an operation and management strategy. The company then, guided by these values, obtains financial success and reaches a prominent position within its sector. The set of ideals that led to success ends up being part of the day-to-day of the company's managers and employees, and, over time, practically become a creed among team members. New hires are quickly exposed to the set of customs of that company, either explicitly, or by observing the behavior of everyone present there. Over time, culture transforms the body of employees into a cohesive entity, capable of responding in a coordinated manner to possible threats and changes in the competitive environment in which the company operates. This process can turn into a real competitive advantage when well used.

Because it is intangible and difficult to identify precisely, a corporate culture can be identified indirectly, through a set of questions to the body of employees of any company, as suggested by Rich Hagberg, consultant at the Hagberg Consulting Group. Questions like: “Who usually gets promoted?” “What really matters within that framework?” “What kind of action is usually well rewarded?” “Which employees fit here and which don't?”, if answered honestly, paints a good picture of the culture in a given corporate environment.

It is worth remembering that a strong organizational culture is not always synonymous with success. A successful corporate culture must, above all, be well adapted to the competitive environment in which the company operates. For us, this means being able to promote an environment favorable to change and innovation, with an incentive structure that rewards creative and ownership behavior, and that, moreover, does not “protect” the status quo. A strong culture, but excessively attached to antiquated customs, can make a body of intelligent executives make strategically short-sighted decisions and insist on mistakes or even create structures that are too bureaucratic.

Looking to the past, we can see great companies that delivered phenomenal results based on well-defined and strategically positioned cultures. Walmart, Pepsico, HP, Apple are well-known examples of companies that managed to stand out from their peers by having clear corporate cultures that were well adapted to their respective strategic environments during the last decades. By analyzing the profiles of each of these companies, we came to the conclusion that they all promoted behaviors within their organizations that focused on 3 essential pillars: customers, employees and shareholders. It may seem a bit obvious, but companies do not always consider the three points equally. Focusing too much or failing on any one of them can unbalance the structure and make sub-optimal decision-making increasingly common.

We believe that Ambev, a company that, for most of the last decade, was the best evaluated in our qualitative analysis, is a contemporary example of imbalance of the three pillars. The company became known for having one of the strongest corporate cultures in the world, focused mainly on training "owners" and not employees. The system was based on pure meritocracy, on the models of the great Wall Street investment banks (Goldman Sachs is cited as one of the inspirations) and encouraged employees to make efficient decisions for the company. The group of executives formed by the company worked long hours, was cohesive, efficient and guided by a set of values so strong that any violation was inconceivable. The result for operations was clear; exponential growth in the company's operations, resulting both from well-executed acquisitions and a business model that supported organic growth through a culture of cost cutting and process efficiency. The company has become a school for highly qualified executives, motivated by the company's strong culture and aggressive variable compensation program, which has undeniably changed the lives of many employees. The result for the shareholder is easily measured by the stock return of +13,537% from 1994 to its peak in 2018.

The company's problem was never management, nor concern for shareholders, because they were not as attentive with regard to communication with their consumers and understanding their demands. For a few years now, we have noticed, albeit empirically, that cost-cutting policies have turned into a deterioration in public perception of the quality of their products. A view spread that Ambev "worse" the quality of good beer brands when it brought them under its brand umbrella. Over the years, we have noticed an increase in competition from companies like Heineken, which has always leveraged the purity and consistency of its beers, while Ambev took a while to wake up to customer demands, for example, in relation to the presence of cereals unmalted in their liquids.

When one of the pillars weakens for a long time, it is to be expected that the others will also sway. An aggressive and meritocratic variable compensation culture depends on good financial results to retain good talent who migrate there in search of prestigious positions and good financial compensation. The loss of credibility with customers can translate into worse growth and the company runs the risk of ceasing to be a perfectly functioning cog, for a system lacking the momentum to continue with its old business model.

We understand that the company's executives have already identified the points to be improved, in particular the need to strengthen contact with its customers and focus on the innovation of its products. Jorge Paulo Lemann, one of the greatest executives of this generation, took an important step towards leading this transformation, having the humility to admit that he feels like "a dinosaur" in today's "new world". As the leader of an entire generation of executives, Lemann's behavior should act as a catalyst for the cultural changes that the company is now facing and will face even more.

Ambev's example illustrates our point that a strong corporate culture is not always linked to performance gains. For this to be true, the culture of a given company must be adaptable to the environment in which it operates, and this is increasingly difficult in a reality of constant change such as the current ones. For this reason, we emphasize that the key element for the success of any strong culture is the existence of leadership that leads processes and promotes incentives that favor change, innovation and constant reassessment of what is being done in the company. At the link below we have prepared a discussion on the subject with two of the people we most admire in the

Brazilian business universe, Luiza Helena Trajano, chairman of the Board of Directors of Magazine Luiza, and Eugênio Mattar, CEO of Localiza.

https://youtu.be/dg9L7VqgSc8

After having the privilege of learning for almost 2 hours with people who are so experienced in the subject, we learned some important lessons as investors. As much as the corporate culture has its origin in the company's leadership, it is only really present in a company if its roots permeate absolutely all its levels of the organizational structure, especially the end point, which has direct contact with customers, those who have the power to determine the success or failure of a company. Identifying the spread of beliefs and attitudes within a company helps us to differentiate strongly existing corporate cultures from those creeds present only in marketing campaigns and “mission, vision and values” frameworks disclosed in formal company presentations.

The year 2020 is a clear example of what Luiz Alves made a point of mentioning in our conversation with Luiza Helena Trajano and Eugênio Mattar about a saying from Minas Gerais repeated by Dr. Aloysio Faria: “The only thing we know about the future is that it will not be as we want it to be. ”. Even when everything points to a clear and safe direction, we can - and will be - surprised by catastrophic events with unimagined consequences, such as the crisis imposed by the global spread of covid-19, which is capable of invalidating all the assumptions previously adopted in the estimates of results of invested companies. In the face of this heavy fog, we cling to what we believe to be the greatest asset of a corporation: its people. They are the ones who, together, make all the decisions and are responsible for every step the company takes. And these same people are the reactive force presented when we are faced with a crisis. Therefore, we believe that a cohesive group, with the same purposes and values and with a rooted corporate culture, can act in coordination and more quickly in different scenarios, not just in crises. And this is reflected in the form of positive results over time, regardless of whether we believe that the next year will be promising or not.

Performance Attribution

In the first half of 2020, the **Alaska Black FIC FIA - BDR Nível I** registered -56.23%, against +2.99% of the IPCA + 6% p.a. (benchmark). The accumulated CDI for the period was +1.76%.

Alaska Black FIC FIA II - BDR Nível I registered -56.07%, against -17.80% of the Ibovespa Index (benchmark). The accumulated CDI for the period was +1.76%.

Alaska Black Institutional registered -16.98%, against -17.80% of the Ibovespa Index (benchmark). The accumulated CDI for the period was +1.76%.

Alaska 70 Icatu Previdenciario FIM registered -7.24%, against -1.66% of the IMA-B Index (benchmark). The accumulated CDI for the period was +1.76%.

Alaska Black 70 Advisory XP Prev FIM recorded -10.31%, against +3.17% for the IMA-B 5 Index. The accumulated CDI for the period was +1.76%.

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Alaska Black 100 Advisory XP Prev FIM recorded -16.18%, against +3.17 for the IMA-B 5 Index. The accumulated CDI for the period was +1.76%.

	1S20	ITD*
Alaska Black FIC	-56,23%	165,78%
Ibovespa	-17,80%	67,49%
IPCA + 6% a.a.	2,99%	156,33%
CDI	1,76%	111,34%

*Inception in 29/12/2011

	1S20	ITD*
Alaska Black FIC II	-56,07%	34,17%
Ibovespa	-17,80%	53,78%
IPCA + 6% a.a.	2,99%	36,41%
CDI	1,76%	26,06%

*Inception in 03/01/2017

	1S20	ITD*
Alaska Black Institucional	-16,98%	118,22%
Ibovespa	-17,80%	37,66%
IPCA + 6% a.a.	2,99%	34,47%
CDI	1,76%	23,93%

*Inception in 21/02/2017

	1S20	ITD*
Alaska 70 Icatu Previdenciário FIM	-7,24%	20,40%
IMA-B	-1,66%	30,68%
Ibovespa	-17,80%	12,43%
IPCA + 6% a.a.	2,99%	21,66%
CDI	1,76%	12,36%

*Inception in 02/05/2018

	1S20	ITD*
Alaska Black 70 Advisory XP Seg Prev FIC FIM	-10,31%	-2,76%
IMA-B 5	3,17%	4,15%
Ibovespa	-17,80%	-11,34%
IPCA + 6% a.a.	2,99%	5,70%
CDI	1,76%	2,53%

*Inception in 31/10/2019

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	1S20	ITD*
Alaska Black 100 Advisory XP Seg Prev FIC FIM	-16,18%	-8,34%
IMA-B 5	3,17%	4,07%
Ibovespa	-17,80%	-12,14%
IPCA + 6% a.a.	2,99%	5,65%
CDI	1,76%	2,52%

*Inception in 01/11/2019

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

Strategy	1S20
Consumption	1,62%
Cash	0,23%
Arbitrage	0,02%
Utilities	0,01%
Energy	0,00%
Steel	-0,03%
Cost	-0,06%
Real Estate	-0,11%
Industrial	-0,50%
Technology	-0,96%
Mining	-2,42%
Pulp & Paper	-2,70%
Petrochemical	-2,73%
Shopping Malls	-3,86%
Oil & Gas	-4,61%
Logistics	-4,73%
Education	-6,26%
Hedge/Macro	-28,69%
Total	**-55,78%**

*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 2020 with the following characteristics:

1. **<u>Investments and Divestments:</u>** At the end of the first half of 2020, the fund consisted of nineteen shares. There was an exit of one stock from the Consumer sector, one stock from Steel and two from the Industrial sector, and the entry of one stock from the Energy sector and two stocks from the Consumption sector.

2. **<u>IRR</u>**: The fund's expected internal rate of return at the end of the first half of 2020 was 23.25%. At the end of 2019, the fund had an estimated rate of return of 19.67%.

3. **<u>Dividends</u>:** In the first half of 2020, the fund received in earnings (dividends and JCP – interest on equity) 0.69% of equity at the end of the period.

4. **<u>Other Revenue</u>**: The fund had a result of -28.50% in other revenues/expenses such as share leasing, 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 2020 with the portfolio we had a year ago. The reduction in income is due to the decrease in the fund's equity as a result of the negative variations presented by the shares invested in this period. The same explanation serves for the reduction in net profit (loss), combined with lower exposure to those companies with greater losses. As a percentage of Shareholders' Equity, the similarity of the numbers represents exposure in companies with similar multiples (Revenue/Market Value and Profit/Market Value). The net margin (Net Income/Net Revenue) of the "Black holding" went from -11.11% at the end of the first half of 2019 to -6.07% at the end of the first half of 2020. The positions that most negatively impacted the net income reported high provisions for losses and asset impairments in the period.

R$ Millions	28/06/2019	30/06/2020	Variation
Net Revenue	2.508,25	**1.577,13**	**-37,12%**
Net Profit	-352,31	**-123,20**	**-65,03%**

% of fund AuM	28/06/2019	30/06/2020	Variation
Net Revenue	79,09%	**77,67%**	**-1,79%**
Net Profit	-11,11%	**-6,07%**	**-45,38%**

Markets

The markets started the year excited with the trade agreement (Phase 1) signed between the US and China and not even the attacks between the US and Iran prevented the stock markets from making new historic highs. Also in January, news about a wave of coronavirus contamination by China was beginning to gain prominence in the media and despite the growing number of contamination by the virus, the markets did not consider this as a risk, as it was believed that the spread of the virus would be restricted. to the Asian country.

At the end of February, when apparently the wave of contaminations was under control in China, the escalation of new cases in Europe made the markets recognize the potential risk of the virus and its rapid dispersion, which resulted in a first realization in the prices of risk assets.

In March, the virus made rapid progress among European countries and, shortly thereafter, in the US. The World Health Organization (WHO) has accordingly declared the coronavirus outbreak as a pandemic.

As the numbers of confirmed cases of the disease grew around the world, governments in several countries adopted social isolation as a barrier against the spread of the virus. The main side effect of this measure was the immediate paralysis of global economic activity, which suffered from the simultaneous shock of supply and demand. This scenario caused the prices of risky assets to suffer the fastest fall in history.

In response to the pandemic and its consequences on economic activity, governments, together with their Central Banks, acted in a coordinated manner to mitigate the side effects of social isolation. They adopted a series of measures such as cutting basic rates, fiscal stimulus packages, purchasing public and private bonds, minimum income programs, direct aid to companies, facilitating the granting of credit, among others. The speed and magnitude of the responses were certainly fundamental to stop the bleeding of the markets and the activity itself.

At the end of the first half of 2020, despite the existence of some outbreaks of a second wave of contamination, especially in the US, measures to relax social isolation were underway in most countries. Such measures, together with the monetary and fiscal packages, supported the markets and the recovery of the global economy which, until now, has been confirming the temporary profile of the crisis. Indicators such as industrial production and retail sales, which fell sharply at the height of the crisis, have shown signs of recovery of the same magnitude.

In the domestic market, asset prices were also strongly affected by the development of the pandemic, but our economy was in a more fragile situation than most other countries. The economic recovery from the 2015/2016 crisis was still taking place gradually and the fiscal situation prevented more vigorous support for economic activity. . These aggravating factors caused the performance of local assets, mainly the Bovespa Index and our currency, to perform considerably worse than peers during the crisis.

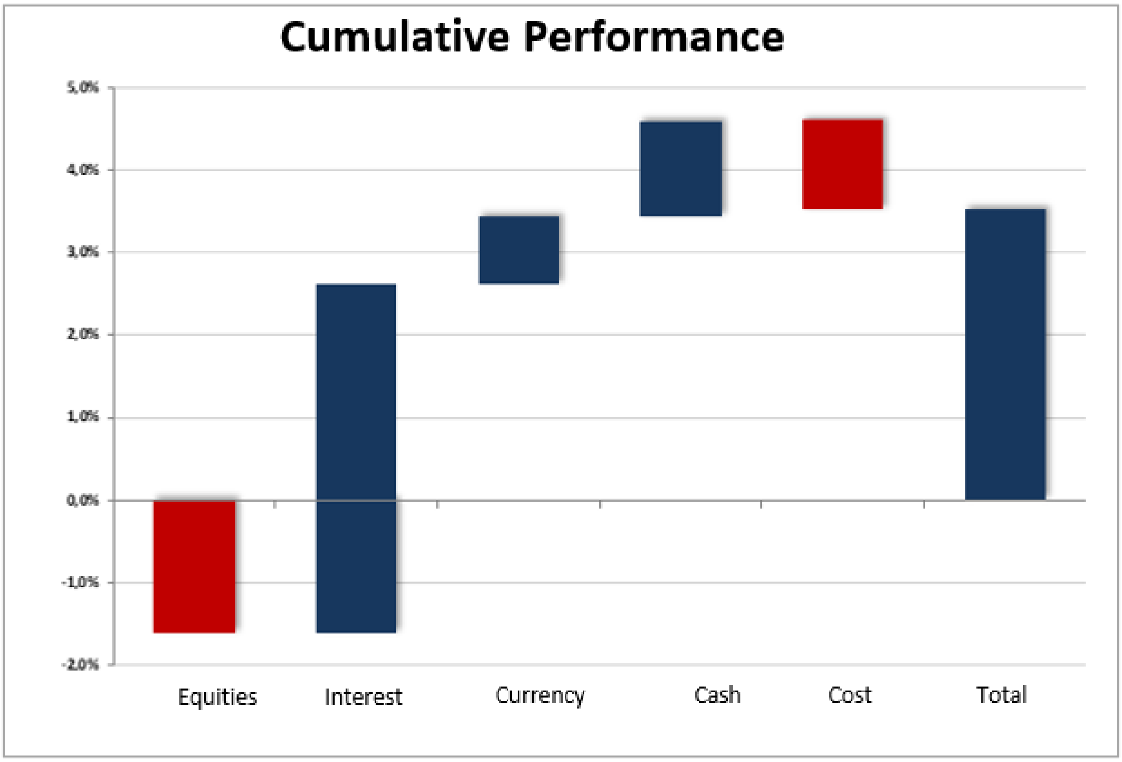
Alaska Range

In the first half of the year, the Alaska Range fund returned 3.52% against 1.76% for the CDI, its benchmark. As mentioned in the previous topic, local asset prices were strongly affected by the unfolding of the pandemic. While variable income and the exchange rate suffered from risk aversion, interest rates, especially short-term interest rates, fell over the course of the semester, following the downward cycle of the SELIC, which was extended by the Central Bank as one of the tools to fight the crisis and its effects. contractionary effects on activity.

In variable income, the fund posted a loss of 1.61%. This profitability comes from two strategies: long x short between the stock portfolio and the future Ibovespa index and directional position. In the long x short strategy, the result was very close to neutral since the portfolio ended the semester with a performance similar to the index. In the directional strategy, the fund incurred losses as it maintained a long position on the stock exchange throughout the semester. S&P 500 put structures mitigated the losses of this strategy.

In the interest rate market, the fund returned 2.62% and was the main source of gains in the half. During the entire period, the fund maintained a net short position in rates in the middle part of the yield curve, in addition, the fund took advantage of the strong risk aversion in March to increase the risk of the strategy. At the end of the semester, a considerable part of the position had already been liquidated.

In currencies, gains were 0.82%. Despite starting the year with a short position in the dollar against the real, at the end of February the fund started to carry a long position in the American currency and carried this position for a good part of the semester as a hedge of the other directional positions: purchase of stock exchange and sale of interest rate. At the end of the semester, the fund returned to a short position in the dollar against the real, mainly via the purchase of long-term put options.



We appreciate the trust of our investors and partners.

Thank you,

Alaska Asset Management