

March, 2019

%	NEBRASKA CAPITAL FIA	CDI	IBOV	NBKA-CDI	NBKA- IBOV
2011*	8.30%	3.83%	718%	4.47%	1.12%
2012	22.97%	8.41%	7.40%	14.56%	15.58%
2013	1.34%	8.55%	-15.50%	-7.21%	16.84%
2014	-6.21%	10.81%	-2.91%	-17.02%	-3.30%
2015	-13.86%	13.23%	-13.31%	-27.09%	-0.54%
2016	36.31%	14.00%	38.94%	22.31%	-2.63%
2017	24.67%	9.95%	26.86%	14.72%	-2.19%
2018	17.65%	6.42%	15.03%	11.22%	2.61%
Desde o início	117.99%	104.51%	65.97%	13.49%	52.02%
Anualizado	11.18%	10.21%	7.13%	0.96%	4.05%

* Since 08/25/2011 – date of the fund’s launch. Nebraska Capital FIA results are shown after fees and costs, while CDI and Ibovespa are shown “gross” – before management expenses. All are shown before taxes the investor may have to pay.

As we have been saying for years, annual variations in companies’ market values are usually not good performance metrics. In the long run, the business performance of any given company will drive its value, and this is what we focus on. Thus, we don’t ascribe much importance to the fund’s annual results. As highlighted in our latest letters, we believe that our cumulative returns are already approaching a good level, and that they will reach very good ones over the coming years, even if the general optimism with stocks cools down.

COMPANY	(%)
Cemar	31.4%
Itaúsa	21.8%
Equatorial	13.6%
Charter Communications	3.7%
DaVita Inc	3.7%
Signature Bank	3.6%
TOTVS	3.2%
Outros Brasil	2.7%
Outros USA	7.3%
Subtotal	91.0%
Cash and Equiv.	9.0%
TOTAL	100.0%

Investment portfolio as of 12/31/2018

Two main points about our portfolio at yearend 2018 should be mentioned: the first is that our three major investments remain the same, and the second is the increased allocation in American companies.

About the first point, we wrote in our 2016 and 2017 letters:

“We hope to hold these investments for a long time (in which proportions the circumstances will tell).” (2016)

“We have been studying these companies for years, and believe that only in exceptional situations we are going to sell relevant pieces of them...” “...the second situation would happen if we found a new investment idea with a risk/return proposition that is VERY attractive and had no available cash”. (2017)

Both forecasts have held true so far: we still have a lot of the fund allocated in Itaú, Cemar and Equatorial (66.8% at yearend), but less than at the end of 2017 (79.3%). All of the difference came from trading a relevant part of the investment in Itaú for American companies. Our esteem for Itaú has not diminished; we just think that, as the stock rose and we identified good new opportunities, it made sense to trade part of the investment. Itaú is still a relevant position that should continue to contribute to our long term returns.

About the second point, we also wrote in earlier letters:

“It is worth mentioning that we believe that, slowly, this part of our portfolio (USA) will grow in relation to the rest, especially for the scarcity of investment options with the characteristics we currently pursue in Brazil’s market.” (2015)

We had 18.3% of the portfolio invested in American companies at the end of 2018. However, as opposed to our Brazilian investments, those are individually small positions (nine companies), as our confidence level in these businesses is lower than in our three major investments. Moreover, our three largest U.S. investments (Charter, Davita and Signature) were already on the portfolio at yearend 2017. Slowly, we should have more investments in the U.S., as we have been finding quite interesting companies in our studies. And, with time our judgment improves and our confidence grows. Experience is very relevant in our game.

We have confidence that this flexibility to invest both in Brazil as in the U.S. will prove quite beneficial (it is already doing so, as we will show during our annual meeting). Since we are not obliged to be 100% allocated in neither country, we can use occasional price dislocations between the two markets to boost our returns. Even though since we began with this strategy (in 2015) both the Brazilian and the American stock markets have risen a lot, discrete movements amid sectors in the U.S. market have given us nice opportunities to find good companies at attractive prices.

To close, it is good to remember that we don’t run currency exchange risks in our U.S. investments. We always sell U.S. dollars in future markets at the same proportion as our U.S. investments, hedging them to Reais, which helps our returns versus the CDI.

All of that said about investments in the U.S., we keep very focused both on our three main holdings in Brazil, and on looking for other Brazilian companies that might join that restrict group. After all, we believe that our capabilities and differentials are further developed here, for the accumulated knowledge.

2019 Novelties

We started helping clients to manage their investments in May, 2009, still as a financial consulting firm. Thus, we are completing our first ten years. We arrive at this decade mature and quite confident in our future. And, to mark this moment, we have some novelties.

The first will bring happiness and sadness at the same time for those reading this letter: from now on our letters will be much shorter (happiness). But we will communicate more frequently (the sad part); each quarter we will update you about our work. Moreover, in each letter, we will present two companies that we follow. We will be only **introducing** these companies, regardless of whether they are or not in our portfolio.

Another novelty is that we have moved to a new address, at the JBZ building, on Carlos Gomes Avenue. It was an important investment that shows our confidence in the future of our business. Our annual meeting will be held at the nice auditorium of the new building.

Talking about the annual meeting, this year's will have a slightly different format. Besides the presentation that we make about our work, we will have an especial guest: Equatorial's CFO, Eduardo Haiama, who is also a board member at Cemar (which is controlled by Equatorial). Apart from our relevant investment in these two companies, we highlight Equatorial's relevance in Brazil's electricity sector. It is a well known history in the financial market, but not much in the business world, and one that is worth listening to, as it contains many management principles – not only financial, but also strategic and operational ones. Furthermore, Equatorial had two relevant developments in 2018, about which we will soon write an Investment Report.

This year, we will, exceptionally, invite some other relevant businessman to the meeting (besides all of our shareholders, obviously). Save the date for May 27th in the morning. Invites will be sent soon.

Lastly, we have altered the fund's redemption rule, which will pass from semiannual to quarterly windows. Those who occasionally ask for redemption in a given quarter will receive their money in the end of the following one. We have listened to feedback from some clients and prospects and we believe that this change won't be harmful to the shareholders who continue with us.

Despite some news, Nebraska's core is unchanged. Our investment process has been stable for quite a while (obviously with constant incremental evolutions) and our principles, in special, are the same since we began: low management fees that fall as we grow; performance fees over the CDI, with high water-mark; the mandatory rule that Nebraska's partners invest at least 70% of these performance fees in the same portfolio as that of the clients, with no redemptions allowed; and the prohibition of any other investments to these partners (apart from short term fixed income for emergencies). These principles **uniquely** align us with our shareholders, and guarantee we won't lose focus.

To close, we would like to highlight the retirement of a great executive. We usually comment about how few great companies (which we deem "completes") there are in Brazil's stock market. And, although we have never invested in Renner (we don't understand its sectors competitive dynamics in the long run), it is one of these rarities. José Galló will retire from leading Renner on a daily basis next April. Anyone who knows him, as well as the company's history, knows the success did not come by chance. It was fruit of much study, dedication and pursuit from continuous improvements. As if this was not enough, Galló is still involved with the boards of Localiza and Itaú, another two of the few "complete" companies in Brazil. Had someone invested in the shares of these three companies in the last 13 years (when Localiza had its IPO and Renner became a corporation), he would have gathered annual returns above 25%. Monitoring which boards Galló will get involved with should be a great mean to find good investments.

We appreciate your confidence and hope to see you on May 27th.

Nebraska Capital

Founded in 1973 (with six used cars), Localiza had its IPO in 2005. Salim Mattar and his brother Eugênio, along with Antônio Resende and his brother Flávio, hold 23.6% of the company, which is still managed by a Mattar, Eugênio, who succeeded his brother in 2013. Many have tried to build large and profitable rental car companies in Brazil, but its long term vision and relentless execution have brought Localiza to the status of unquestionable leader of the sector.

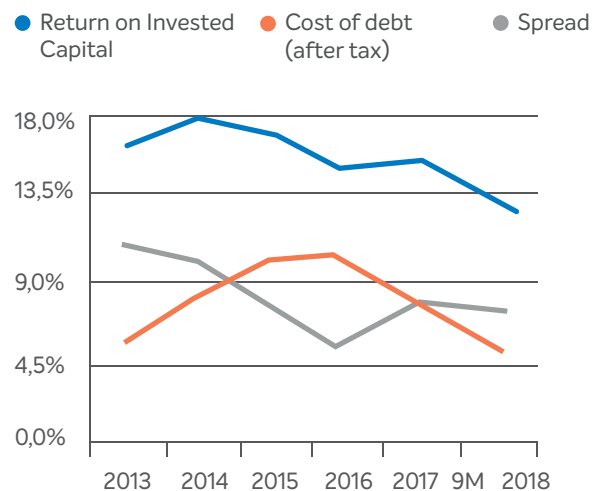
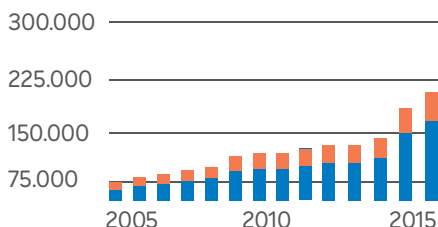
Localiza operates two divisions: Rental Car (daily and short period rentals to individuals, companies and insurers), and Fleet Management (years long contract with companies). Its competitors have the same profile, especially due to relevant scale advantages to negotiate the acquisition of new vehicles, maintain the fleet, obtain cheap funding, and optimize asset usage. The company also operates a chain of used vehicles dealerships.

Car rental is a very capital intensive and competitive business; all around the world cases of companies with differentiated and sustainable financial performance are rare. Localiza is amid these exceptions, as it has been delivering a ROE between 20% and 30% over the last ten years. With almost two times as many vehicles as its second largest peer (2.5x if we looked only at the Rental segment), Localiza benefits from the scale gains above mentioned in a superior dimension, besides maintaining an unique operational execution. To close, it is worth noting the expressive growth in recent years, during the recession that haunted Brazil's economy; this came from market share gains as well as an enlargement of the addressable market with lower prices enabled by a lower cost of capital and higher asset turnover. The growth shown below was all organic, except for about nine thousand cars from the acquisition of Hertz's Brazilian operations in 2017.

Number of cars

● Fleet Management ● Rental Car

CAGR 2005–sep18: 15% - CAGR 2005–2016: 10%



Based in New York, Signature is a commercial bank with 47.3 billion dollar in assets as of Dec/18. With venture capital from the Israel-based Bank Hapoalim, the company was founded in 2001 by a team of senior bankers who left Republic Bank when that firm was sold to HSBC. This team, led by Joseph J. DePaolo, foresaw an institution operating under a very peculiar and disciplined strategy: their bank would focus on serving the deposit needs of local commercial clients by having a strong balance sheet; holding operating expenses down (by not having street level branches, for example); attracting experience bankers with established client relationships and making them the single-point of contact for all clients' needs within the bank; and withholding to the basic principle that the most valuable part of a bank lies on the right-side of its balance sheet (deposits).

Signature had its IPO in 2004 and has since delivered consistent results, passing through the 2008 financial crisis unscratched. It has recently expanded to the West Coast, aiming to replicate its successful strategy. The American banking sector has many differences to the Brazilian one, but also some similarities, one of which is the increasing investments in technology. Thus, the largest banks in the U.S. are increasingly dominating retail banking (serving individuals); however there is a growing space for mid-size banks that focus on catering to the needs of other businesses, especially local ones that claim for specialized services from great bankers, who are often unhappy and lost within the giants' bureaucracies, which come not only from their sizes, but also from regulation. This scenario matches well with Signature's strategy.

With a focus on the right side of its balance-sheet, the left one must be conservatively managed so that the company's capital is not threatened. This has been true so far, except for a portfolio of loans backed by taxi medallions in New York and Chicago that lost a lot of value after ride-hailing apps appeared. This problem has already been surpassed (and was not big to the point of threatening the bank's capital, just its returns for a while), and the bank keeps growing above the sector's average, with a conservative trajectory that leads to a not-so-high, but satisfactory ROE. The growth in deposits shown in the graph below was all organic.

