



Investor Letter – Our First Decade



In October 2018, Oceana reached its 10th anniversary. We are proud to have reached this milestone.

Oceana began its activities in October 2008, in the midst of one of the worst financial crises in the last few decades. During Oceana's first month of existence, the Brazilian stock exchange dropped 40%, with 5 circuit breakers during the month. Yes, this was the first month of our firm. This experience worked as a wonderful conviction test for our team, helping us face countless future crises with tranquility and with the confidence that we have the ability to overcome great challenges.

In this great "test" Oceana went through, despite the extreme uncertainty surrounding the financial global markets, we had the discipline to strictly follow our investment strategy, focusing on company's fundamentals, as well as in each investment's margin of safety. Our investment philosophy's efficiency proved itself within a very short timeframe, promptly achieving excellent results in the subsequent months. It was a challenging outset, in which we take great pride, and still provide moments of laughter when we recall some of the stories from that time. This experience along with several others of different natures, molded our DNA, culture, and history, allowing us to grow into what is now Oceana. We certainly still have many challenges in the road ahead, but we have become a more mature firm over these past 10 years.

A mature firm has several advantages over startups. The lessons learned from the mistakes we made is one example. Every company makes countless mistakes throughout its history, and if its leaders can analyze and debate these mistakes with intellectual honesty, it can be expected that these errors should not occur again.

Another significant advantage is the possibility of long-term planning. It is natural for a newly-formed venture to have its focus on the next 6 to 12 months. Oceana, completing its first decade, can naturally have less attention drawn to short-term matters, and is therefore able to look forward to its next 10 years. Nevertheless, to plan correctly the next 10 years demands an honest analysis of the first 10 years, as well as correcting previous errors.

We decided it would be interesting to share with our investors an analysis of this period, with its ups and downs, and lessons learned.

Our first 10 years: overview of the results

We believe to have met our main goal: to create wealth for our investors.

The table below shows our performance in each of our strategies:

Total Return Strategy

Returns ¹	Long Biased Fund	CDI*	Ibovespa
Inception 12.20.2010	229.18%	121.87%	42.11%
Returns ¹	Selection Fund	CDI*	Ibovespa
Inception 12.21.2012	147.32%	82.87%	56.68%

* CDI = Domestic interest rate

¹ To date: 02.28.2019

We believe we have succeeded in delivering high absolute returns, well outperforming all benchmarks, and incurring on low risk of permanent loss of capital. Our main objectives were met.

Long Only Benchmark Aware Strategy

Returns ¹	Valor Fund	Ibovespa
Inception 10.01.2008	315.59%	91.94%

¹ To date: 02.28.2019

Since the Fund's inception, we were confident of our capability of outperforming the main stock market indexes over time. The consistency of results, though, came to us as a surprise. Our strategy outperformed the Ibovespa every year since its inception in 2008. This happy coincidence of the positive performance with the Gregorian calendar was not planned, and we do not believe it will necessarily be replicated in the future.

Market Neutral Long Short Strategy

Returns	Long Short Fund	CDI*
Inception 03.15.2008	370.85%	273.15%

* CDI = Domestic interest rate

¹ To date: 02.28.2019

Thirteen years ago, we launched the Oceana Long Short FIM, a fund with one of the longest track-records amongst Brazilian Long Short funds. The fund performed very well throughout the challenging scenario for this strategy in Brazil over this time period, delivering 13% p.y. annualized returns.

We are proud to have delivered very good results in all the funds we offered to our investors. There has never been an Oceana fund that has not outperformed its benchmark by a substantial margin. One of our cornerstones has always been to only offer funds that would effectively increase our investors' wealth over time. We believe we have achieved that goal.

Our first 10 years: successes and mistakes

We believe we had important successes steering Oceana during its first 10 years, which helps explain our good results. Amongst them, we highlight the following:

- 1. Focus:** we executed the same investment philosophy for the past 10 years, focusing exclusively in value investing in Brazil, not adopting any of the innumerable trends that emerged over time. We understand that this endeavor is much harder and more significant than it might seem at first. New trends usually arise supported by exceptional short-term results and broad public acclaim. We believe our discipline, practiced for so many years and under the most diverse market conditions, is one of Oceana's most important edges. Our focus and discipline also point to a clear north of what our investors should expect in the future.
- 2. Honesty:** speak the truth. As simple as that. Honesty towards our clients, invested companies, and the Oceana's team. Unfortunately, this characteristic is less common than one would hope in the Brazilian corporate and financial community. When we encounter partners who share this concept, we deeply value our relationship with them.
- 3. Long-term horizon:** an important concept for Oceana is not sacrificing our values for short-term benefits. We have known how to make the right decisions focusing on long-term aims, despite short-term costs. Closing our funds for new subscriptions at several different moments is the most tangible example. In-house, we have a considerable number of other examples. We strongly believe it is important not to give-in to the temptation of trying to maximize results in the short-term, with possible negative effects in the long-run. Our long-term focus has proven to be very positive for both Oceana and our investors.
- 4. Well-structured governance and low turnover:** Oceana must always be capable of attracting and retaining our industry's most talented professionals. The potential impact of losing a great talent has always been clear to us. We built our firm's governance with the clear aim of avoiding undesirable turnover, and applied considerable effort towards achieving this goal. So far, we have succeeded. We believe the low turnover in our team is an important competitive advantage for Oceana. There is no clear answer as for the reason of a low turnover. Maybe this could be due to the combination of how we compensate our people, the meritocratic partnership model we employ, the feeling of

ownership by partners and non-partners, our positive work environment, shared ethical values, and confidence in the firm's leadership.

5. Processes robustness: we incessantly seek to improve our investment management, operational and risk management processes. This might be due to the fact that our team is mostly comprised of engineers. Activity identification, process modeling, and risk/inefficiency detection, are part of our business philosophy. Although it might go unnoticed from the outside, having robust processes is key for achieving our results.

6. Genuine concern with our clients: we have always had our client's wealth generation as our main objective. It is easy to mistake this concept with wealth generation for the firm. We have clarity about our goal. We deeply value being recognized not only for the results we delivered, but also for the way we treated our clients over the years, with honesty and effective care with their capital.

Generally speaking, we are very happy with Oceana's journey up to now. We had 10 years of learning and improvements. We have effectively created value for our investors. We are proud, not only of the results, but also of the way we delivered them.

However, we did have our share of considerable errors along the way. Maybe we made less mistakes than most firms in our business, but still, more than we would like. We have tried to correct some inefficiencies and mistakes, but still haven't managed to tackle all of them. Two important mistakes/inefficiencies we had in these 10 past years will be explored below.

1. The excessive risk aversion of our Long Short Fund.

Results could have been better if the fund had taken more risk. We had very high hit ratios over time and could have been less conservative as to the sizing of positions in the fund. The final product was a fund that delivered good results for its investors (370% accrued returns vs 273% CDI), but we believe it could have been better.

2. Excessive number of funds/strategies.

Oceana began its activities in 2008 managing two strategies: relative value (market neutral long short) with the goal of capital gains, and a benchmark aware long only (Valor FIA) with the goal of outperforming the IBX index (Brazil broad market index). Both strategies were implementations of the same investment philosophy that guided us since the company's inception and exclusively focused on public equities in Brazil. Despite being variations of the same theme and having relevant overlap among themselves, they were two different funds that needed distinct investment and portfolio construction processes. On top of that, in 2010 we decided to launch a third strategy, now focused on a long biased absolute return profile.

Managing 3 different strategies brought enormous complexity to our team. Different investment horizons for each fund, investments that made sense for one fund but not for the other, and the sizing of positions for each fund are examples of topics we regularly grappled with. We generated good returns on all funds, but the underlying complexity was enormous.

In 2015 we solved part of the problem. A considerable portion of the Valor FIA fund became a mathematical extrapolation of the Long Biased's long portfolio. This simplification brought clear benefits to our fund management process, since our funds became, once more, bundled in two strategies: market neutral long short and long biased/long only.

We know we can manage both strategies well. After all, we have successfully managed 3 different strategies in the past and with very good results. However, there was still one question disturbing us: in dividing our effort between two different strategies, would we be doing our best to our investors?

Managing more than one strategy evidently causes a considerable loss of focus. Doubts over how to prioritize an analyst's time ended up being a constant problem, with difficult answers. Should we allocate our analyst's time by the AUM in each strategy? That would benefit the absolute return strategy, to the detriment of the long short strategy. Should we prioritize their time by the investment's relevance for the given strategy? How to define this a priori? How to answer these, as well as other questions in a truly fair way? Even with the best of our intentions, the answer is not obvious. This was becoming a big problem for us.

As we know by experience, our business becomes more competitive over time. When some of Oceana's members started their investment careers, 20 years ago, having access to a company earning's report granted the reader great competitive advantage. But there is no need to go that much back in time. Ten years ago, the level of diligence performed by investors in Brazil was only a fraction of what we see today. It was not common to see the type of diligence we perform, talking to competitors, clients, suppliers, ex-employees and board members. We usually have several dozen meetings around a company before reaching a mature investment opinion. Back then, very few investors dove into companies in the depth we did. In the past ten years, this number has grown.

In order to maintain our competitive advantage, it is not enough to analyze our track record. This analysis might be dangerous, leading to a false sense of security. We must always think about evolving, targeting the widening of our competitive advantage and improving our capacity to generate good returns for our investors.

Considering this reflection, after much consideration, and with the objective of adding efficiency to our investment process, we decided to discontinue the Oceana Long Short fund. From this event onward, Oceana will be managing a single strategy – different funds but all of them being extrapolations of the same portfolio.

To end a fund in which we have clear competitive advantage is not a trivial decision. This is more so in the case of this fund, which has 13 years of a great track record, and has won innumerable prizes in Brazil and overseas. Besides, this fund navigated very well a period in which a big portion of the Brazilian long short funds was wiped out of the market. Added to that, this fund was, for many years, Oceana's flagship fund.

We understand this decision might be very inconvenient to the Long Short Fund investors who, in their vast majority, would like to remain as investors in the fund. To these clients, we offer our sincere apologies. Obviously, this decision brings a negative impact to Oceana's short-term results, but we have firm conviction on the long-term benefits. As stated before, we believe we know how to make the correct long-term decisions, despite short-term impacts. We couldn't be more excited about the new phase Oceana is entering. We expect to execute an even better investment process, now having our team focused on a single strategy.

Oceana's 10th anniversary bring us an inevitable feeling of gratitude.

We sincerely thank our team, people with whom we have had the privilege of sharing many hours of many days. With their hard work, discipline and intelligence, they enabled the Oceana's founder's dream of creating a company of which to be proud of.

We thank our service providers, who gave us excellent support over these years.

We thank the managers of our invested companies, who many times positively surprised us with their openness and tolerance with a demanding investor.

We thank, in a special way, our business partners – multi-family offices, banks and financial consultants – for their effort in understanding how we invest, for their suggestions and critics, for their trust and friendship. We profoundly admire many of these partners and consider ourselves privileged for the opportunity to interact with them on a day-to-day basis.

Finally, we greatly thank our clients who, for many years, entrusted us with the financial future of their families and, ultimately, trusted Oceana with the potential of fulfilling their dreams. We feel deeply honored.

We believe it will be a great challenge to sustain our competitive advantage throughout the next 10 years. We know that focus on improvement and constant learning is key for this to be achieved. The simplification of products/structure was a very important step. However, there are still many improvements to be made. Some of our analysis and portfolio management processes can still be improved, Oceana's culture needs to be reinforced, and there are still sectors of the Brazilian economy of which our knowledge is far from what we expect to be. A lot has been done, but there is still much work ahead of us.

We are excited and optimistic to face this challenge. We will continue to work with all our energy to multiply and take good care of your capital. May the next 10 years come!