BOGARI capital

BOGARI VALUE

Investor Letter 12, Quarter 3 2010 – Rankings

Bogari Value FIA is an investment vehicle focused on equity investments in Brazilian public companies. The fund's objective is to provide its clients with long-term capital appreciation by investing in companies whose stocks are trading at a discount to intrinsic value.

Our Performance

Up to August, Bogari Value's performance was +13.6%, against Ibovespa's -5.0%.

Since inception[1], our total return was +805%, compared to +63% for Ibovespa. During this period, our NAV per share appreciated to BRL 905 from BRL 100.

Annual Performance

Year	Bogari	Bovespa	Outperformance(%)
2010	13.6%	-5.0%	+18.6
2009	122.0%	82.7%	+39.3
2008(1)	-20.1%	-41.2%	+21.1
2007(1)	278.8%	43.7%	+235.2
2006(1)	18.7%	11.4%	+7.3

Accumulated Since Inception

Year	Bogari	Bovespa	Outperformance(%)
2010	805.9%	63.1%	+742.8
2009	697.8%	71.8%	+626.0
2008(1)	259.3%	-6.0%	+265.3
2007(1)	349.6%	60.0%	+289.6
2006(1)	18.7%	11.4%	+7.3

Even with a cash position above what we usually have, the fund performed quite satisfactorily. Some of our positions have continued to appreciate and others have matured in the past two months.

As the external scenario is still very uncertain, we remain cautious and with a relatively high cash level. Thus, we can amortize our declines and buy assets at attractive prices, increasing the potential for appreciation.

Portfolio Commentary

In the last two months there was a rally of the Ibovespa, with a sharp rise in July and a small drop in August. Despite not being our goal and having almost no stocks that makes up the index, surprisingly, we managed to up with the rally. This was due to the appreciation of our main holdings. These two months were also marked by Q2 results and by specific events in the companies in our portfolio.

In our last letter we commented on the investment made in Equatorial, where we considered that part of the company was "cash", since it had agreed to sell its stake in Light to Cemig. The spin-off from Equatorial was finalized in August, with the new company now listed on the stock exchange as Redentor, whose sole asset is the stake in Light. As we had expected, Redentor was traded for an amount equivalent to the amount proceeds from the sale of Light, practically equating to "cash" remunerated by CDI.

In addition, Cemar's Q2 result – the main asset in the current Equatorial – was excellent. Electricity demand in Maranhão grew by 20% and power distribution losses were greatly reduced once again: the company is operating at a manageable (low voltage) loss level of 16% while its regulatory goal is 24%.

After the split, the sum of the two companies became worth more than Equatorial previously. We believed that the separation of assets would help to better value the company, which in fact occurred.

The results of Tempo already begin to show that the company is under control and the efforts made in the improvement of processes and costs are maturing. Although there have been some one-off expenses related to operating adjustments, the company has been improving every quarter. We believe that soon we will be able to see more expressive results of its real cash generation capacity.

An important event for the company was the end of the fiscal and technical direction that ANS [Brazilian Health Agency] was doing in one of its dental companies. As expected, the total costs for Tempo were low, in the order of BRL 800k. With the end of the direction, a great impediment to new sales of dental plans was removed, allowing a greater growth of this segment. In addition, the process, which took almost a year, consumed a lot of energy from the company, which can now focus on its improvement and growth.

In addition, Tempo announced an agreement with Caixa Econômica for the sale of health and dental plans to its clients. This is a project that should have a relevant return for the company because of its great sales potential. To get an idea, Caixa has more than 45 million people and more than 900 thousand small and medium-sized companies with

[1] The vehicle was founded on 1 Nov 2006 as a private investment vehicle. On July 8, 2008 it was transformed into Bogari Value FIA.

checking accounts. The conversion of a small percentage of these clients will mean a great growth for the company, which today has about 75k lives insured in health and 800k in dental.

Helbor posted another quarter of consistent sales and margin results, but as expected, with launches below potential. The figures released continue to show the quality of the company's projects, which have had some of the highest returns in the industry. We remain confident in the growth of the company's launches later this year, with the same profitability presented so far.

Tempo and Helbor have received more attention from both investors and other analysts. The former has been drawing attention to the changes that have been occurring in its management and to the potential of the business. In the case of Helbor, we believe that it will soon be recognized as a "new PDG", carrying a quality premium. Our enthusiasm for these assets is reflected in the fact that they are the largest positions in our portfolio.

As we like to emphasize in our letters, we like to keep our portfolio adequately diversified. Our largest position is currently 10% of AUM and top 5 combined are around 34% of AUM. Our liquidity level is relatively high, holding a 20% cash-position and being able to liquidate almost 90% of our holdings in 10 days.

We continue to hold good assets in our portfolio, with great prospects for the next few years. Additionally, we are positioned to take advantage of a potential market devaluation.

On Rankings

Commenting on fund rankings is no simple task. Usually, those who comment on the methodologies do so because they did not rank as expected, which undermines the credibility of those who do. To avoid this kind of questioning on the part of our readers, we take advantage of this moment, in which we are well positioned in some rankings, to make some comments.

Before starting, we would like to say that we understand the challenge in defining a feasible and reliable application methodology in a universe of funds that exceeds three digits. Funds have different characteristics, reflect diverse strategies and meet specific needs. These points only increase the complexity in defining such methodology.

Knowing these challenges makes it easier to interpret the information available in the various media that publish periodical rankings. Respected publications like Valor Econômico, Exame, Isto é Dinheiro, Investidor Institucional all publish such rankings.

We usually find four common characteristics in these methodologies: (i) they all apply some minimum filter based on backgrounds, such as AUM or length of track record; (ii) all of them propose to form subgroups that include classification and similar strategies; (iii) all use performance as one of the classification criteria; and (iv) all use statistical indices, such as volatility, to measure the risk of funds.

The identification of good funds tends to lead to good managers, assuming that there is stability in their strategy and in the management team. Therefore, such reviews are good proxies for identifying good managers, since consistent performance ends up, at some point, bringing funds to the top of the rankings.

However, it is possible to state that the probability of a reader selecting a good fund following only the selection of the ranking is not very high. That is, just choosing a fund because it is at the top of one of the rankings is not enough to select a good manager. Normally, a good manager tends to be at the top of the ranks at some point in his rankings, but being at the top of the rankings does not necessarily make him a good manager.

This is because, to be applicable, methodologies are based on assumptions and simplifications that do not necessarily adequately reflect the objectives of the funds. For example, although they are classified in the same group, vehicles with different strategies are often grouped together, which may reflect quite downside risks.

We emphasize that our objective here is not to deconstruct the conclusions and methodologies used, but as we understand the complexity of the task, we would only try to suggest additional and complementary analyses so that our readers can deepen and improve the understanding of the level of risk and comparability of funds of their interest.

In order not to overstretch ourselves, we will assume some premises: first, that our reader has some critical ability on the subject, and with that, is able to discern and/or pool funds by their strategy. Should that not be the case, and taking advantage of the renewed fashion of Lewis Carrol, as in the dialog of Alice with the Cat[2], it makes little sense to broach the subject. Second, for the sake of relevance, we will focus on characteristics of equity funds.

As regulation clearly says, past performance does not guarantee future returns. No manager can guarantee any performance to the shareholder. So how do we choose managers that are aligned with the interests of investors?

First, as a basic guideline, it is not acceptable to spend more time choosing a computer or a cell phone than an investment fund. If this happens, something is wrong. At the very least, one should spend an equivalent time with something that can yield multiple computers and cell phones in the future.

[2] (…) thought Alice, and she went on. `Would you tell me, please, which way I ought to go from here?' Alice speaks to Cheshire Cat.
`That depends a good deal on where you want to get to,' said the Cat.
`I don't much care where--' said Alice.
`Then it doesn't matter which way you go,' said the Cat.
`--so long as I get somewhere,' Alice added as an explanation.
`Oh, you're sure to do that,' said the Cat, `if you only walk long enough.'

Second, studies show that the performance of independent (or more focused) managers, who are not linked to financial groups, is on average higher than that of managers linked to financial groups. The main reason is specialization. The independent has a focus on few products and, in the long run, needs to get good results to stay in the market.

Third, it is advisable to know the team of managers and know if they have a significant amount of their assets invested in their funds. Studies indicate that funds that have relevant investments from their managers tend to have higher than average returns. Incidentally, regardless of any study, it does not seem to make much sense to invest in a fund where the manager himself does not have invested assets. Many funds do not have the assets of their managers, especially those linked to large financial groups.

Fourth, it is important to analyze the coherence of the strategy adopted by managers over time. Past performance is not a future guarantee, but much less so when the strategy used in the past changes from one time to another. Or worse, when the fund manager changes.

For example, suppose that football team shirts are funds and that their profitability is equivalent to the goals their players make. An "investor" could rate Santos' or Flamengo's shirt 10 and find them to be good investments since their goal average was consistently high in the past. So the investor decides to make an investment by "buying" pieces of each shirt. Sometime later, the investor is surprised to know that the performance was not as good as expected. Looking more deeply into the subject, he eventually discovered that Pele and Zico no longer played with those shirts. Now the number of goals has changed, returning to the average. So are the funds, when you change the team or the strategy.

Usually, the alignment between managers and investors solves a large part of the risk management problem. Since in practice, the investor does not know what is happening in the daily life of the fund – in the same way as the shareholder does not know what happens daily with companies – the best way to keep the manager in check is to know that "they are on the same boat", i.e. both are aligned, to put it more formally.

However, since risk is a matter of perception of the one who takes it, some additional features need to be understood and evaluated. For example, some investors do not like funds that have leverage or concentration in a few stocks. So their attention to these issues is important. Leverage, in the long run, has a high probability of being a problem, in the same way as concentration. Since the probability of being wrong is small – but not negligible – and the cumulative probability in the long run is roughly the sum of the short-run probabilities, over long periods the probability of being wrong becomes relevant. At these times, it is not advisable to have leverage or excessive concentration.

How do we fit into this context? Our return history is adequate, we are independent, we manage only one fund, we are aligned with the investors in the fund, we try to have a coherent investment strategy, we do not have leverage or concentration of assets and we tend to buy cheap assets. So in general, we believe that our fund has a low level of risk, regardless of what volatility says – which is also lower than the market – or any other quantitative risk indicator.

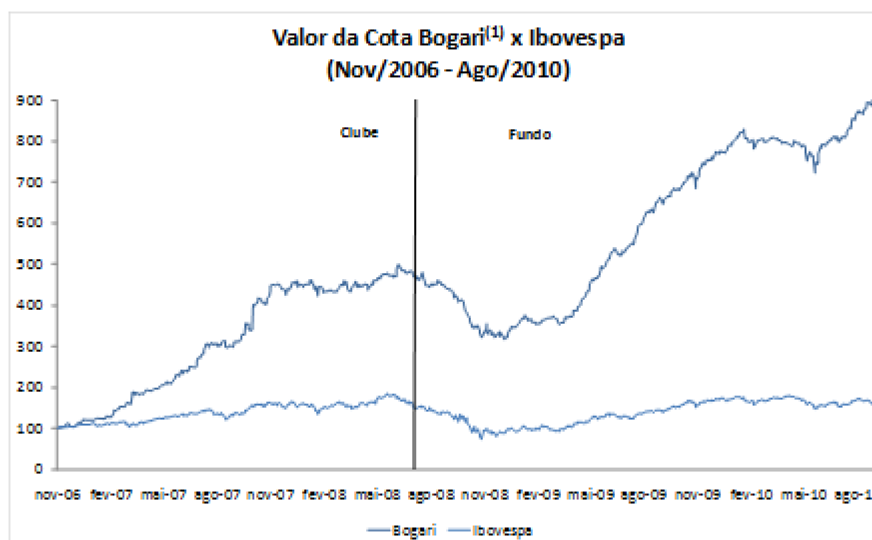
We now suggest that our readers take a hands-on exercise with a selection of the best ranked funds to evaluate some of the features discussed here. The easiest way to do this exercise is – in light of the concepts presented above and other requirements of your own – to answer the following question: what do not I like? Those that do not fit the criteria should therefore be excluded. With those remaining, the task of better understanding the strategy and getting to know the manager becomes easier, making for an easier investment decision.

Improvements in selection of funds can certainly be obtained with these exercises. And, with some time well spent – preferably more than you spend on buying a computer, cell phone or car – our readers will become better investors.

Thank you for your trust.

Monthly Returns (BRL – Net of Fees)

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2010	Bogari	0.0%	0.0%	-0.4%	-0.7%	-0.1%	1.2%	8.7%	4.4%					13.6%
	Ibov	-4.6%	1.7%	5.8%	-4.0%	-6.6%	-3.3%	10.8%	-3.5%					-5.0%
2009	Bogari	-1.2%	5.5%	-0.9%	21.3%	12.3%	5.1%	15.1%	7.3%	4.0%	3.0%	8.7%	4.2%	122.0%
	Ibov	4.7%	-2.8%	7.2%	15.6%	12.5%	-3.3%	6.4%	3.1%	8.9%	0.0%	8.9%	2.3%	82.7%
2008(1)	Bogari	-3.6%	3.9%	-1.2%	3.1%	2.5%	2.2%	-7.3%	-0.8%	-12.9%	-13.0%	-0.6%	7.8%	-20.1%
	Ibov	-6.9%	6.7%	-4.0%	11.3%	7.0%	-10.4%	-8.5%	-6.4%	-11.0%	-24.8%	-1.8%	2.6%	-41.2%
2007(1)	Bogari	9.4%	25.7%	14.4%	9.7%	16.3%	13.9%	11.3%	3.3%	8.8%	28.6%	0.6%	2.4%	278.8%
	Ibov	0.4%	-1.7%	4.4%	6.9%	6.8%	4.1%	-0.4%	0.8%	10.7%	8.0%	-3.5%	1.4%	43.7%
2006(1)	Bogari											5.1%	12.9%	18.7%
	Ibov											5.0%	6.1%	11.4%



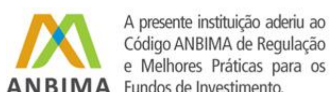
(1) Bogari Value was launched as a regulated private investment vehicle in November 1, 2006. In July 8, 2008, the vehicle was converted into Bogari Value FIA

Main Fund Characteristics (Brazilian Onshore Vehicle)

Administrator	BNY Mellon Serviços Financeiros DTVM S/A	**Subscription**	T+1
Manager	Bogari Gestão de Investimentos Ltda.	**Redemption**	T+30
Distributor	BNY Mellon Serviços Financeiros DTVM S/A	**Settlement**	T+33
Custodian	Banco Bradesco S.A.	**Management Fee**	2.175%
Auditor	KPMG Auditores Independentes	**Performance Fee**	20% over Ibovespa (w/ high watermark)
Minimum Investment	R$ 50,000.00	**Anbima Identifier**	212962
Minimum Balance	R$ 50,000.00	**Classification**	Equities Ibovespa
Minimum Transaction	R$ 10,000.00	**NAV**	Close of Business Day

The information contained in this factsheet is merely for information purposes and should not be considered an offer to sell or a solicitation to buy funds' shares or any other financial assets in any jurisdiction in which such an offer or solicitation is unlawful. Investors should contact their financial advisors for more information. This document is not the prospectus provided for in the "código de auto-regulação da anbima para a indústria de fundos de investimento". There is no public market for the shares and no such market is expected to be developed in the future. Bogari gestão de investimentos ltda. Does not distribute the fund's shares or any other financial assets. The prices and returns are net of all fees and gross of income taxes. The fund may use derivatives as an integral part of its investment policy. The use of such instruments may result in significant losses for its investors, including losses superior to the fund's net asset value. In such circumstances investors will be obligated to invest additional resources in the fund in order to cover any shortfall. The disciplined risk management practices used by the management are not a guarantee against possible losses to the investors in the fund. Past performance is not a guarantee of future results.prospective investors should carefully read and retain a copy of the fund's prospectus and regulamento prior to making an investment in the fund. The regulamento should not be considered to be legal, tax, investment or other advice, and each prospective investor should consult with its own counsel and advisors as to all legal, tax, regulatory, financial and related matters concerning an investment in the fund.the return of an investment in the fund is not guaranteed by the administrator, the manager or any insurance instrument, including the brazilian "fundo garantidor de crédito - fgc". The fund may be exposed to a significant concentration in assets issued by few issuers, being subject to the consequent risks.

in order to comply with applicable law, all investors must provide to the administrator copies of their identification documents prior to investing in the fund.



Rua Jardim Botânico, 674/523 | Jardim Botânico | Rio de Janeiro - RJ | Tel 55 21 2249-1500
www.bogaricapital.com.br
BNY Mellon Serviços Financeiros DTVM S.A. (CNPJ: 02.201.501/0001-61)
Av. Presidente Wilson, 231, 11º andar, Rio de Janeiro, RJ, CEP 20030-905
Telefone: (21) 3219-2500 Fax (21) 3974-2501 www.bnymellon.com.br/sf
SAC: sac@bnymellon.com.br ou (21) 3219-2600, (11) 3050-8010, 0800 725 3219
Ouvidoria: ouvidoria@bnymellon.com.br ou 0800 7253219