

BOGARI VALUE

Investor Letter 13, Quarter 4 2010 – Act of Faith

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

In the year to date, Bogari Value's performance was +26.9%, against Ibovespa's +3.0%.

Since inception¹, our total return was +912%, compared to +77% for Ibovespa. During this period, our NAV per share appreciated to BRL 1,012 from BRL 100.

Annual Performance			
Year	Bogari	Bovespa	Outperformance(%)
2010	26.9%	3.0%	+23.9
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	912.6%	77.0%	+835.6
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

With the close of October, we have completed four years of operation of our investment vehicle. We are very happy to see that our NAV multiplied by 10 over this period. We were even more satisfied with the certainty that we achieved this in a manner consistent with our investment philosophy, coupled with a low level of risk.

We would like to underline, however, that it would be unreasonable to expect future returns to be equivalent. However, we continue to believe in a very positive outlook for delivering above-market returns over long periods.

In general, our investor letters are organized by sections, the first section being dedicated to update our performance, followed by a brief update on the portfolio, and lastly a section dedicated to general topics, related to companies or the general economy, which we believe to be worth sharing with our investors. In this issue, we will briefly discuss the

times we are going through in the public equity markets in Brazil, and some aspects of Panamericano bank's failure.

Portfolio Commentary

Although not the fund's objective, we continue to perform well in the short term, having obtained better returns than the Ibovespa in the last two months. We believe that the main reason for this short-term overperformance is due to maturity of some long-term investments in our portfolio.

Helbor released its Q3 results, again showing great numbers. The company sold more than half of all available inventory during the quarter. In addition, the biggest and most anticipated launch of the year for the company - Casa das Caldeiras - was a success.

This project marks a timely change in the company's project profile, which has always focused on smaller projects that mitigate risk in the event of any venture being unsuccessful. However, with the growth of the last few years, the company has been able to take advantage of opportunities in larger projects without compromising much of its resources in a single launch and maintaining its policy of dilution of risks. It is expected that in the coming years these somewhat larger projects will be more frequent, but that smaller projects will continue to be the bulk of their launches.

Tempo also released its Q3 results, showing extraordinary expenses much lower than in previous periods, which shows that the improvements implemented by the new board are having an effect. In addition, the company announced that it has hired advisors to evaluate possible options to sell part or all of its operation.

On Paraná Banco, we commented in our letter #6 (Q3 2009) that "at the current rate of growth the insurance industry, it is possible that in a few years Paraná Banco will be valued as an insurance company with a bank and not a bank with an insurance company." With the recent announcement of capitalization of the insurance holding company, we believe that this inevitably becomes the market view from now on.

Travelers Companies, one of the largest insurance groups in the US, announced that it will inject BRL 625mn for a 43.4% stake in the insurance holding company of Paraná Banco. With this injection, the insurance portion triples its size. As the profitability of the insurance segment is greater than that

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.

of the banking segment, the company's profit should be compounded more sharply by the insurance portion.

We have followed the company for a long time and hold shares of Paraná Banco in the fund since 2008. It was the largest position of the portfolio sometime in 2009, but due to its appreciation, we decreased the position later that year. We recently increased its weight in the portfolio again, taking advantage of a larger price drop. This was a classic case where the market, perhaps because it did not understand the company's strategy, did not accurately price part of the company (in this case the insurance part) and did not assess its strategic value. The acquisition of part of the holding by a strategic buyer, paying a premium to enter the Brazilian market, allowed this value to be "unlocked".

In September, we made an investment that stands out from the usual type of companies we tend to buy, investing for the first time in a company directly linked to commodities. We acquired a position in Petrobras during the offer of capital increase that occurred in September.

We will not go into the merits of the company's capitalization, which has already been widely debated. Our view is that the company is relatively cheap, after suffering so much from the capitalization process, which has dragged on for a long period. Therefore, we believe that this is an asymmetric position of the risk-return relationship, where the probability and amplitude of a fall seem to be smaller than the probability and amplitude of a rise of the stock.

As we like to emphasize in our letters, we like to keep our portfolio adequately diversified. Our largest position is currently 11% of AUM and top 5 combined are around 37% 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 the State of Brazilian Equity Markets

The appreciation of Brazilian equities has been divided into two groups in 2010. In general, companies with operations linked to the domestic market have had a very positive operating result. This improvement, in turn, has been reflected in the valuation of their shares.

On the other hand, non-domestic businesses, with some exceptions, are showing less positive results than those of the companies in the first group. As a result, their shares have risen more modestly.

By October the Ibovespa appreciated 3.0%. Among the Bovespa's sector indexes, it is possible to observe that the main winners of the year are: Consumer Goods (+22.7%), Real Estate (+16.3%) and Financials (+14.8%), reflecting the valuation of the sectors related to the internal market.

So far, there is nothing new for those who follow the market closely. What draws attention is the fact that some assets

have appreciated to such an extent that they began to embed in their prices expectations of growth of very high results for several years.

As an example, we can cite a company that is being traded at a multiple of approximately 24x profits for 2011. To justify this price, the company should grow its earnings per share 50% from 2010 to 2011, plus another 20% per year for the next 10 years.

Although the business is very good and well managed, it does not seem prudent to pay upfront for this type of growth. We actually think the company can develop at this rate, but the probability of this not occurring also seems high. Our role as managers is not to predict what will happen, but rather to prevent it before it happens.

Another point observed when we decide not to pay prices of this nature is the fact that it is usually possible to take advantage of the irrationality of the markets to acquire practically any asset at lower prices. Cases where this does not occur are rare. In the fall of 2008, this same asset had its prices quite depreciated, like all others.

In short, buying this asset at a price embeds such growth is a "bet" we prefer not to make because it seems asymmetrical against the investor. Good investments are made by buying assets with merit at appropriate prices, not good assets at any price.

If on the one hand we have the assets linked to the domestic market with good operating results and, for the most part, unattractive prices, on the other hand we have the assets linked to the foreign market suffering from the appreciation of the real and the demand of developed countries still recovering. This group of companies has been presenting a level of uncertainty regarding their future cash generation. Companies that can, have migrated part of their exports to the domestic market, taking advantage of the heated markets to sell their products at more attractive prices. Those linked to commodities, have mostly not seen the rise of their underlying commodity offset the appreciation of the real.

How do we behave in this environment? As always, carefully. We have a slightly higher than average cash level and assets that we are comfortable with. We believe that we are prepared for the possible swings that await us.

In the internal scenario, we have a new president. We hope it will be enlightened on this journey, because it will not be easy. In addition to their potential fragility and political inexperience, we can not forget their recent illness. We hope to follow the strategy used by his predecessor to carry out some symbolic actions in the first years of his mandate to generate a positive expectation of the country for the market.

Abroad, things are likely to become more uncertain in the coming years. At first, there should be a rise in asset prices around the world as a consequence of the liquidity being pumped in the market, but eventually that will end.

The important thing is to be attentive and prepared so that when the bill for these excesses finally arrives, we can buy good assets at adequate prices.

Panamericano: Act of Faith Investing in Banks

At the risk of commenting on a topic that will still see many revelations, we would like to briefly discuss the case of Banco Panamericano.

On 11/09/2010 (two days ago), the bank announced that the controller has signed an agreement with the Credit Guarantor Fund in which it lent to the controller, Silvio Santos, BRL 2.5bn, which in turn placed the funds in the company. This was necessary *"because accounting inconsistencies were found that do not allow the financial statements to reflect the entity's actual financial position."* In order to have an idea of the magnitude of the injection, this is equivalent to 1.6x the bank's equity.

The first observation refers to the magnitude of the liquidity need. The bank has a controlling shareholder with significant equity, who is also a public figure. It is regulated by the Central Bank, a specialist in the sector, and by the CVM as it is a public company. The auditor Deloitte. And, recently, Caixa Econômica Federal, with an audit performed by KPMG, acquired a stake in the company's control. To sum it up, a lot of people have been able to see the bank numbers up close in the last few months.

Being simplistic and assuming that everyone involved has failed with their obligations usually does not explain the whole story.

The origin of the problem was in the credit origination operation made by the bank and subsequently sold to other banks or to FIDCs (Receivables Funds) sponsored by the institution itself. The detail is that despite selling these credits and recognizing all of the revenue at that time, the bank would remain liable for their risk. In case of default, the bank would pay the bill.

The issue of transfer of assets/liabilities to other companies was fashionable in the banking crisis of 2007/2008, when it was "discovered" that some financial institutions used such a resource to isolate their own balance of unwanted events.

In Brazil, the Central Bank identified the co-obligation assignment as a potential problem and attempted to change the rules so that banks using such resources kept the numbers on their balance sheets. However, a change of this magnitude could cause some institutions to fail to comply with some mandatory indexes. In such cases, what usually occurs is a gradual postponement or adoption of such changes, so as not to materially alter the numbers of financial institutions. Specifically in the case of FIDCs, banks are now publishing their consolidated figures for these vehicles.

Valor Econômico approached this topic very well in an article titled "Medium-Sized Banks Leave Billions Off Balance Sheets," published in August 2010.

However, from a credit assignment issue, there's a great gap to a difference of BRL 2.5bn in the bank's balance sheet. In order to reach such a value, it is difficult to exclude fraud. Without knowing the facts, but knowing of a few similar

events in the past, the process of a fraud of great magnitude begins with a small loss that ends up becoming a big problem. Along the way, there are two phases. The first is the attempt of those responsible for the loss of recovering the situation and the second is characterized by the maintenance of the problem so that it does not come to public and the house of cards crumbles.

From the beginning of the real plan we can observe that, in Brazil, the financial institutions were responsible for some of the biggest frauds occurred. Cases such as the National, Santos, and possibly Panamericano banks are easy to remember.

However, our interest does not fall on the possible accounting failures of the Brazilian financial system. It resides in the ability to evaluate with good confidence what actually occurs within a company.

Banks, in particular, are institutions that are difficult to assess. Some analysts say that investing in financial institutions is an act of faith, since it must be accepted as a truth that assets exist, are good, and the institution is in good financial standing. Because leverage is high and checking the key items on your balance sheet is virtually impossible, any slightly more significant loss ends up destroying the bank's equity.

Our understanding is that, in general, investing in publicly traded companies has a little of that connotation. An investor outside a particular institution is unlikely to have the appropriate level of information to judge whether their numbers are true and whether the executive group's speech reflects reality. There's always the possibility of some surprise, as was the case with Aracruz and Sadia.

We believe that even the controlling shareholders in many cases do not know with adequate depth what happens inside companies. This happens often because they are removed from the company's day to day business, sometimes because their executives end up limiting and filtering information about certain topics and others because they do not really understand the intricacies of their own business. As unbelievable as this statement may be, it does not run too far from reality. Therefore, the only way to avoid excessive risk is to buy simpler business, with a good discount for its fair price and to have a good degree of diversification in your investment portfolio.

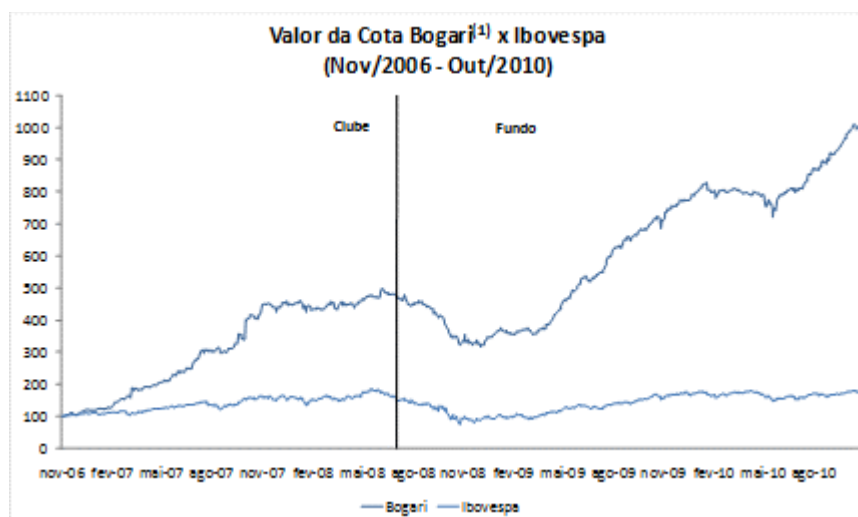
For information purposes, we do not have and have never had Shares of Panamericano. The only bank in our portfolio that does not have retail funding through bank branches is Paraná Banco, which has an irrelevant volume of credits assigned to its size: less than 5% of its equity. And in that case, we are happy with the newly announced transaction.

We will use our next letter to write a little more about fraud and why we think that the most common ones in the US are difficult to find in Brazilian.

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%	6.7%	4.8%			26.9%
	Ibov	-4.6%	1.7%	5.8%	-4.0%	-6.6%	-3.3%	10.8%	-3.5%	6.6%	1.8%			3.0%
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%



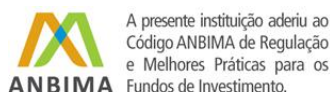
(1) Bogari Value was launched as a regulated private investment vehicle in November 1, 2006. In July 8, 2008, the vehicle was converted into Bogari Value FIA

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

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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.



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