

BOGARI VALUE

Investor Letter 14, Quarter 4 2010 – Three Rules of Energy

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 2010, Bogari Value's performance was +29.5%, against Ibovespa's +1.0%.

Since inception¹, our total return was +933%, compared to +74% for Ibovespa. During this period, our NAV per share appreciated to BRL 1,033 from BRL 100.

Annual Performance			
Year	Bogari	Ibovespa	Outperformance(%)
2010	29.5%	1.0%	+28.5
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	Ibovespa	Outperformance(%)
2010	933.3%	73.6%	+859.7
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 an average cash position of 19% and a relatively low concentration level, we managed to obtain a good performance, closing 2010 with a better than expected performance. Brazil ended up posting accelerated growth and our companies benefited from this, posting very strong results.

2011 should be a different story: domestically-focused companies already appear to show price levels which are not prudent. Those focused on exports should vary according to the recovery of the world economy and the risk of a deepening crisis in Europe.

It is possible that 2011 will be characterized by the continuous appreciation of commodities and therefore commodity-related stocks. If this occurs, our fund may appreciate less than the index over the same period. However, the risk levels of some investments are often not

compensating for the potential return. We have therefore preferred to risk less than having our capital devalued by the correction of overvalued assets.

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 further discuss Panamericano, with added comments on the fraud. Finally, we will present the opinion of an experienced player in the energy sector on the exploration of oil & gas reserves.

Portfolio Commentary

The companies we invest in have shown good operating performance, which is being reflected in their stock prices.

Helbor's Q3 results were released in November and were once again among the best in the industry. The company continued to show one of the highest returns on net assets, sales velocity and very good margins. This quarter was positively influenced by the launch of the Casa das Caldeiras residential, a very successful case, which achieved margins well above the company average. Although we do not anticipate other projects of the same size, we believe that the company should continue with healthy margins and accelerating its launches in 2011.

Results for Tempo confirmed our expectations that the new management would be able to improve operations. With smoother operations, we believe that the focus should now turn to growth and development of new products and projects announced in 2010, especially the partnership with Caixa Econômica. In addition, we have an implicit option to sell the company.

Paraná Banco already presented a higher profit in Q3 with the insurance business than with banking. The transaction announced in November with the Travalers Group is expected to be completed in the first quarter, when, from then on, there should be an increase in the growth of insurance operations. Once the transaction is approved, we believe that it will be possible to allocate the new capital relatively quickly, since J. Malucelli (insurer of the group) transfers much of the insurance that it underwrites, because

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.

it has an insufficient capital base for the volume of opportunities generated.

As we like to emphasize in our letters, we like to keep our portfolio adequately diversified. Our largest position is currently 8% of AUM and top 5 combined are around 30% of AUM. Our liquidity level is relatively high, holding a 24% 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.

A Little on the Frauds

As discussed in our previous letter, our view of accounting errors or frauds may be slightly different from the perception of the market.

Revenue-related accounting fraud rarely occurs in Brazil. As examples, revenue fraud can be carried out by immediate recognition of a contract that is to be executed over several years, or by recognition of revenue relating to the dispatch of goods to distributors or customers with the right of return. At the height of the Internet bubble, some companies have used such resources more intensively.

However, in Brazil, revenue recognition is the taxable event and for other related taxes, such as ICMS, ISS, PIS and COFINS, depending on the case. Therefore, inflating the revenue artificially generates additional tax obligations. At the limit, the more artificial revenue is generated, the worse the company's situation.

In places where revenue taxes are not so relevant, one can inflate revenue and create the famous "non-recurring" items of expenses at a later stage to adjust the balance sheet. As a result, revenue increases, tax does not and a false "adjusted profit" is created.

Therefore, cases such as the Panamericano, which – according to what little has been disclosed so far – had nonexistent credit portfolios generating revenue for the bank, are very unusual.

In Brazil, the most common case is when the balance sheet contains – sometimes due to negligence – insufficient provisions for both liabilities and for revaluation of assets.

The Three Rules of Energy

Some time ago, one of our partners bought a book from a well-known 1980s raider, active in the American oil industry,

T. Boone Pickens. Although the book is not the best and its title being even worse², we think it is worth presenting a little of his life and teachings.

Incidentally, it is important to alert our readers to never stop buying a book because of its title. Apparently publishers, especially in the US, are competing to determine who has the worst collection of book names. However, we can say that often books with bad names are great surprises³.

T. Boone Pickens is a geologist. Before his birth, his father was already employed in the Texas oil industry. In 1956, at age 28, he founded Mesa Petroleum, which in the 1980s became one of the largest independent oil producers in the United States.

Still in the 80's, he tried to buy some public companies, making money and becoming a controversial character. Finally, in 1996 he left the company he founded after it was recapitalized. In 1997, he created a hedge fund focused on energy. He had good performance until the crisis of 2008, when he lost between 60% -80%.

The book recounts his life and updates recent events not covered in his other books. However, the part that interests us appears when he recounts his adventures in managing his fund. Commenting on the expansion of world oil and gas reserves, the author briefly presents his views on new oil exploration projects in this sector through his three energy rules.

"Consider my three rules of energy:

1. The cost of finding oil and gas is always higher than you initially think.

2. Oil and gas always take longer than expected to get to production.

3. Discoveries are never as large as the producers initially think."

When the book was published, the author was 80 years old and had a lifetime of experience in his field.

Of course, his opinion should not be taken blindly as absolute truth, and admittedly, the three rules will not always be confirmed. However, it is always good to hear different opinions from experienced people.

At a time when many pre-operational oil and gas projects are being offered in the market, we believe that presenting The Three Rules is at least interesting for reflection.

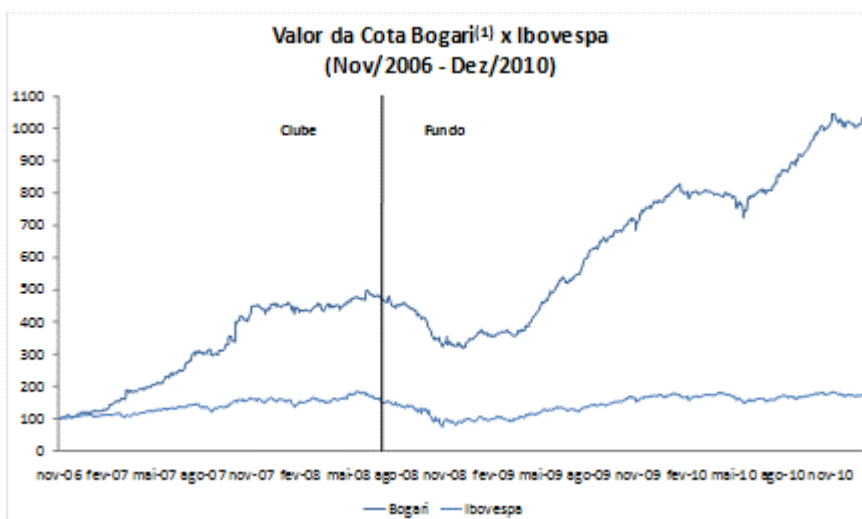
Thank you for your trust.

² Pickens, T. Boone. *The First Billion is the Hardest*. New York: Crown Business, 2008.

³ A good example is the book: Fifer, Robert M. *How To Double Your Profits: In 6 Months or Less*. New York: Harper Business, 1995.

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%	0.3%	1.7%	29.5%
	Ibov	-4.6%	1.7%	5.8%	-4.0%	-6.6%	-3.3%	10.8%	-3.5%	6.6%	1.8%	-4.2%	2.4%	1.0%
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%



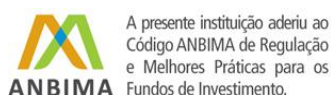
(1) Bogari Value was launched as a regulated private investment vehicle in November 1, 2006. In July 8, 2008, the vehicle was converted into Bogari Value FIA

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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