BOGARI capital

BOGARI VALUE

Investor Letter 16, Quarter 1 2011 – Niobium

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

As of April 2011, Bogari Value's performance was +1.1%, against Ibovespa's -4.6%.

Since inception[1], our total return was +944%, compared to +66% for Ibovespa. During this period, our NAV per share appreciated to BRL 1,044 from BRL 100.

	Annual Performance		
Year	Bogari	Bovespa	Outperformance(%)
2011	1.1%	-4.6%	+5.6
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	Bovespa	Outperformance(%)
2011	944.1%	65.6%	+878.5
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

As expected, the year is proving to be a challenging one. The difference in dynamics between the companies relating to the foreign markets with those focused domestically remains large.

Equity markets have been pricing assets related to the domestic economy adequately, limiting opportunities for expansion and allocation of our capital.

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 discuss the interesting story of how Brazil became a world leader in the production of Niobium.

Portfolio Commentary

Although we believe that many companies are already adequately priced, our portfolio has good prospects for valuation and adequate prices. Our main positions have not changed in recent months, but we are taking advantage of the recent falls and setting up new positions with a lot of potential for the coming years.

As mentioned in our previous letter, some larger cap companies have been shown to have lower operating risk and better valuation potential. Therefore, our portfolio has presented a larger percentage of companies with this characteristic. The assets linked to the domestic market with lower capitalization continue to present low safety margins and high growth rates embedded in its pricing.

The banking sector as a whole continues to suffer from the prospect of announcements of new government measures to curb inflation, which may reduce growth and increase default. The result presented by Itaú in the first quarter was very consistent and we believe that, despite some occasional concerns, the bank continues to be one of the best opportunities in the market.

Commenting on Helbor gets increasingly difficult, as the good results are repeated every quarter. The company continues among the most profitable and with the highest sales speed in the market. The low volume of launches in the first quarter is not a concern. In the coming quarters the company should have bigger launches, showing a significant growth at the end of 2011 compared to last year.

Some developers surprised the market with the 2010 annual and quarterly results of 2011 due to the recognition of expenses not budgeted in works, with consequent decrease of operating margins.

Additional costs in works are common and do not happen overnight. In the case of Helbor, which partners with local builders in the places where it operates, the most important thing is to choose the partners well. If the partner is not committed and engaged, it is easier for problems to occur during the works. Additionally, the control has to be done closely, with constant updating in the company numbers, so there are no surprises in the way. It is unlikely that from one

[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.

month to another a project has a very large budget gap, this process is usually gradual. Finally, it is important to make projects and budgets with enough margin for error so that a small overflow does not compromise your profitability. Currently, Helbor incorporates in its projections of new projects cost increases higher than the national index of building costs. Therefore, we would be surprised if significant cost increase events happen to the company.

In the first quarter, Grendene announced the payment of its first dividend with the new distribution policy of 75% of profits. As a result, the company is expected to have a higher dividend yield than many companies known to be good dividend payers, such as electric utilities. The difference is that Grendene has greater growth potential and less state interference.

Sales volume in the first quarter was not good and we probably will not have a first half with large volumes. However, the profitability of the operation is at better levels than in the past, compensating for the fall in volumes. In addition, the second half is stronger for the company because of the proximity to Christmas and summer when we believe there is good potential for growth.

We understand that Tempo's turnaround process is complete. The search for improvement in results and operations are the normal activities of any company. However, the strong changes to create a structured system of management and control, both operational and financial seems to be closed. The entry of a new CEO with a commercial focus and experience in the main markets of the company are hallmarks of a new phase.

In a better position now, the company should focus its efforts to resume growth. Changing the direction of a company is not easy, takes time and requires more effort than normally expected.

In terms of evaluation, we think the company is not expensive for a finished turnaround and certainly very cheap for a company that can show good growth. If growth does not come, we will have made a good investment, otherwise the investment will probably be quite interesting.

Another relevant company in our portfolio is Redecard. Its latest results showed a slowdown in competition in the acquiring sector, reflected by a smaller margin decline compared to the last quarter of 2010. The growth of the sector as a whole, driven by increased banking, substitution of cash and check for cards and growth of the economy, should see the company regain a path of profit growth, once the margins have stabilized. The entry of new competitors should happen, because this is still a profitable sector, but we do not believe that these will represent a relevant part of the market in the future.

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 35% of AUM. Our liquidity level is relatively high, holding a 23% 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.

Memoirs of a Niobium Salesman

On March 2, 3 and 4 [of 2011, the financial daily] Valor Economico reported on the sale of 15% of CBBM (Brazilian Metals and Mining Company) to a group of Asian investors. According to the reports, the company was valued at U$13bn.

The group of buyers was formed by six companies: four of them Japanese, and two Korean, who had each bought a 2.5% stake. The new partners had the right to acquire a volume of niobium equivalent to their share of ownership in the company. This is a normal clause when a customer becomes a partner in a supplier of raw materials that are strategic to their operations.

To the few who took notice, the transaction was significant. We believe this was the reason that led the reporter to write about the subject during three straight days.

To the reader, the curious points are: how can this virtually unknown company be worth U$13bn, why would anyone pay so much to be a minority shareholder in a private Brazilian company, and what is niobium?

CBMM is relatively unknown, especially to those who are not in mining or steel-making. As a measure of the company's pedigree it is worth noting that it is owned by the Moreira Salles family - former controllers of Unibanco, and currently part of the controlling group of Itau-Unibanco, Brazil's largest privately-held banking group – with a nearly 100% stake in CBMM.. Today, the family owns about 9% of total shares of Itau, currently [Apr 2011] worth around R$15bn. As for CBMM, it was valued at close to R$21bn (U$13bn).

After speaking to some people on this subject, an interesting book was recommended to us, telling part of the company's history by its former Managing Director, José Alberto de Camargo. The book covers the period between 1975 to 2005, when he was at the reigns of CBMM.

Our interest in the story lies in understanding how the company came to be a market leader which, due to its price-setting capabilities in its product, also became extremely lucrative.

Niobium (formerly known as Columbium) is a metal which, when used in steel-making, produces stronger steel, also better suited to welding. The value proposition of niobium and its by-products is very compelling, as the addition of a small quantity – 400 grams per ton – is capable of bestowing the above characteristics on steel, making it better and more cost effective.

Niobium started being used in steel-making in the 1920s, however, the difficulty to obtain it and irregular stocks were a major barrier to its widespread use. The discovery and beginning of extraction of Brazilian and Canadian reserves have enabled widespread use.

CBMM's strategy to develop the market was very interesting. On one side, they started selling higher value-added products such as iron-niobium micro-alloys, and later super-alloys instead of pure niobium concentrate. Additionally, the disintermediation from trading companies and direct sale to end-users allowed the company to gain a better understanding of its clients' needs.

In order to generate credibility in a product produced in a country with scant industrial tradition like Brazil, CBMM created a logistics process guaranteeing order fulfillment in 72 hours. Clients were also able to define the type of packaging for the product. Additionally, the prices were fixed so as not to create undesired volatility and unpleasant surprises to its customers.

To stimulate demand and new uses, CBMM sponsored research into niobium applications throughout the world. It hired chemical engineers and also created an annual prize for the best publications on the theme.

Close relationships with the main steel-producing countries was fundamental. The company forged relations with the USSR and China during the Cold War era. Japan also began to be an important market for the company.

Gradually, the company developed the niobium market, guaranteeing a recurrent demand for its products. As the largest global producer of the metal (80%) and operating the world's richest niobium mine, CBMM was able to gradually increase its prices. The growth of China and the commodities boom were catalysts to this process.

The business model developed by the company was very well executed by José Alberto de Camargo. This allowed the company to generate profits of R$1.9bn, and its valuation to reach the levels paid by its buyers.

It is rewarding to see the materialization of the vision of a group of entrepreneurs who founded the company 69 years earlier, and of the Moreira Salles Family who acquired the project in 1965 and continued to develop it.

The peculiarity here lies in the fact that CBMM is a Brazilian company with global reach, an absolute leader in its market with a business model highly focused on innovation and technology. Brazilian companies with these characteristics are few and far between.

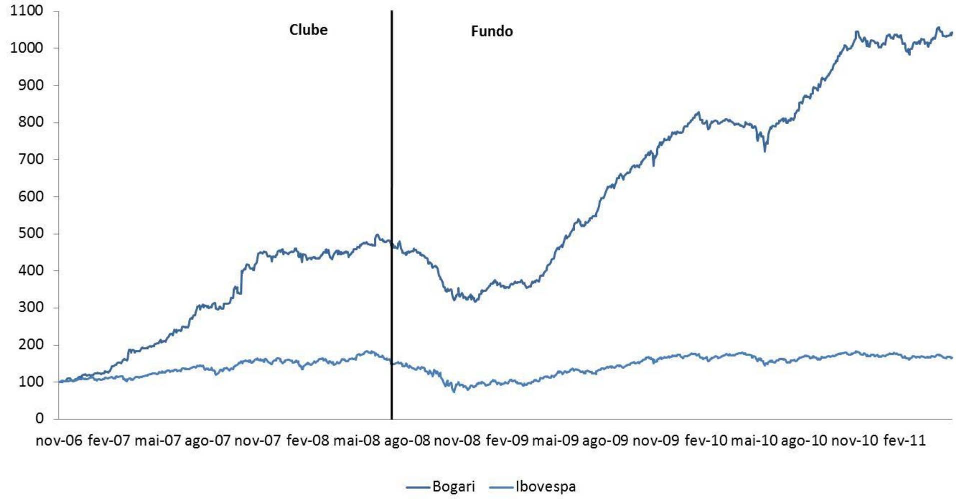
The Moreira Salles family have the merit of believing in, and continually supporting such a project. Many years later, its merits were rewarded by the recent transaction. What we can say is that businesses with these characteristics are the stuff of dreams for every investor, especially if bought at attractive prices.

Thank you for your trust.

Monthly Returns (BRL – Net of Fees)

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2011	Bogari	-2.0%	0.7%	2.1%	0.3%									1.1%
	Ibov	-3.9%	1.2%	1.8%	-3.6%									-4.6%
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%

Valor da Cota Bogari(1) x Ibovespa
(Nov/2006 - Abr/2011)



(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.

ANBIMA A presente instituição aderiu ao Código ANBIMA de Regulação e Melhores Práticas para os Fundos de Investimento.

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