BOGARI
capital

BOGARI VALUE

Investor Letter 18, Quarter 3 2011 – When to Buy

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 substantial discount to intrinsic value.

Our Performance

As of August 2011, Bogari Value's performance was -4.8%, against Ibovespa's -18.5%.

Since inception[1], our total return was +883%, compared to +42% for Ibovespa. During this period, our NAV per share appreciated to BRL 983 from BRL 100.

	Annual Performance		
Year	Bogari	Bovespa	Outperformance(%)
2011	**-4.8%**	-18.5%	+13.6
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	**883.2%**	41.5%	+841.7
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

The months of July and August were marked by great volatility in the markets, due to the worsening of the perspectives of the international economies. We were close to triggering the circuit breaker in the stock market, with the Ibovespa almost dropping 10% in a single trading session, something we had not seen since the height of the 2008 crisis. The international situation has not yet been resolved and we remain cautious about market performance shareholder as a whole. However, we seek to take advantage of this volatility by buying, at moments of exaggerated falls, shares of companies we like and follow.

Until August we present a nominal result that is lower than desired, however, when compared to our benchmark, we present a positive difference of more than 13 percentage points.

As put on other occasions, we are very concerned about the downside of the fund. We believe that if we have a consistently lower fall, the chances of having a better long-term outcome will be higher. From this perspective, we have been very consistent in implementing the investment strategy, since we have regularly seen falling less than the market.

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 revisit an analysis we released 3 years ago on stock market corrections and returns.

Portfolio Commentary

Our portfolio has been gradually changed throughout the year. New positions are being set up as the market offers assets with low prices and risk and good prospects for the coming years. However, the fund's main positions have hardly changed in recent months. The most common features of a significant part of our assets are stable business models, low requirement for investment, high return on invested capital and adequate multiples.

The last months were also marked by the announcement of Q2 results. Itaú's results were below market expectations, mainly due to increased delinquencies in the credit portfolio of small and micro businesses. We understand that this problem is normal and is part of the banking business.

With the concentration of the national banking system and the fragility of foreign banks, competition in Brazilian retail banking tends to be very limited. Therefore, the greatest enemy of each bank ends up being its expectation of growth, translated in commercial aggressiveness and easing of the credit policy. The conservative implementation of the strategy of the major national banks alone should be sufficient to achieve good returns in terms of profitability. Indeed, private banks should be careful not to follow public banks in the implementation of the government's monetary policy, avoiding too much growth in times that should be restricting their trade policy.

[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.

Redecard presented a somewhat surprising result, with increased margins charged on credit and debit card transactions (MDR). As we said in our last letter, we expected a cooling of the competition and seems to have been exactly what happened. Maintaining this lower downward trend in MDRs, we should have a turning point in the results of the company, with the growth in the volume of transactions offsetting the decline in margins, again leading to a growth in profit and cash generation.

In addition, in the cases of Redecard and Cielo, we have the advantage of the almost automatic transfer of inflation, which is at the highest level in several years. Because the company receives a percentage of the value of the transactions, any increase in prices on products paid with credit and debit cards increases the revenue of the companies.

After the first quarter with only one launch, Helbor launched eight projects in the second quarter, none of which was in the city of São Paulo. This shows that the diversification strategy of the land bank was successful, since the company continues at a good pace of growth, even with the delays presented in the approval of projects by the city halls, especially in São Paulo. The company's operating and financial numbers remain very strong, with high sales speeds, margins and return on capital. Operationally, we do not see a sharp drop in real estate in the short term, but even if that happens Helbor is prepared, with a low stock of units, lean corporate spending, and little debt.

As we expected, Grendene did not have a good result in the second quarter, showing a decrease in sales volume and consequent loss of market share in the footwear sector. The stock price reflected this bad result, but we believe with some exaggeration.

On the other hand, there was a very significant fact. One of the government's initiatives to increase the competitiveness of the national industry was to lower payroll taxes for certain industries such as footwear, furniture and textiles. In the case of Grendene, this exemption alone should increase the company's profit by 15% if current production levels are maintained. Thus, despite the weak performance, the company remains cheap and now has great prospects for increased profit in 2012, with the consequent maintenance of the high level of distributed dividends.

We commented in previous letters that Tempo's turnaround was ending and that now the focus should be on the growth of the various lines of business. The result for the second quarter showed that the company has not yet been able to achieve sustainable growth in the sectors in which it operates. In addition, the implementation of the agreement with Caixa Econômica Federal has been carried out quite slowly. However, we expect that in the second half of the year the operation of health insurance sales will begin in some branches.

In addition, the new president of the company has a profile well suited to the task of driving the company back to sustainable growth. New contracts are being negotiated, with good prospects of closing for the coming months. 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 39% of AUM. Our liquidity level is relatively high, holding a 17% cash-position and being able to sell 90%+ of our holdings in 10 days.

We continue to hold good assets in our portfolio, at compelling valuations and interesting perspectives for the next few years. Additionally, we are positioned to take advantage of a potential market devaluation.

When to Buy?

In 2008 we did an analysis on the behavior of the market after relevant stock market declines. Our goal was to understand what happened 1, 3 and 5 years after each of the recent events of strong declines in the local stock market. With this, we would have some allowance to be able to answer frequently asked questions about the market and the stock investments.

For this purpose, each event in which the market, represented by Ibovespa, fell more than 35% from any intermediate peak was considered a relevant drop. This threshold was chosen arbitrarily and could have been defined differently, as well as the subsequent "check" intervals defined above.

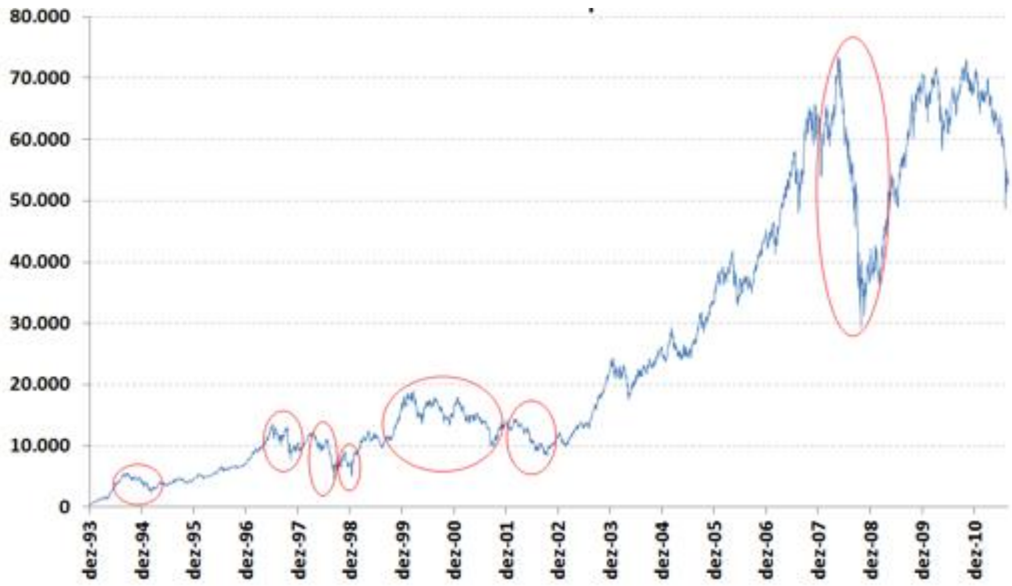
At that time, the idea was to try to verify if, even without statistical significance, the index would tend to recover in longer terms. Additionally, we could have an idea of what these deadlines were in the past.

Today, in 2011, three years after we released this analysis, we decided to revisit it.

Ideally, the optimal investment in stocks would be to buy at the lowest level of the market and sell at the highest. In practice, performing this is impossible, as there is no way to know when we arrive at these times. However, the market gives us important - and simple - information that allows us to get closer to the optimal points of purchase. By the way, we know that when we fall a lot, we are closer to the minimum than we were before. With that, the idea is to buy in moments of strong drops.

The basic premise behind this strategy is that at some point the market will rise again. The logic is that the market, in the long run, tends to follow the fundamentals of the companies and these, in turn, tend to follow the development of the economy as a whole. Quoting a phrase attributed to Benjamin Graham, "In the short-run, the market is a voting machine (...) but in the long run, the market is a weighing machine." In short, companies are valued by their popularity in the short term, but in the long run, by their substance.

That said, on with the numbers. For a 35% drawdown from some intermediate peak, since 1994 we identified 7 purchase windows (see chart). As can be seen in the table, after three years from the time of purchase, we would have a return of 105% on average. Five years after the purchase, we would have an average return of 254%.



Summary of Bovespa Drawdowns

Peak	Trough	Drop	+1 Year	+3 Years	+5 Years
Sep-94	Jan-95	-40.7%	41.3%	178.8%	420.6%
Jul-97	Nov-97	-35.1%	-7.0%	69.5%	10.9%
Apr-98	Aug-98	-35.0%	26.9%	64.1%	81.0%
Nov-98	Jan-99	-38.2%	208.0%	141.9%	326.2%
Mar-00	Sep-01	-35.3%	-20.7%	83.6%	199.5%
Mar-02	Jul-02	-36.3%	49.2%	169.8%	484.7%
May-08	Sep-08	-37.6%	31.2%	24.6%	
Average		**-36.9%**	**47.0%**	**104.6%**	**253.8%**

Bogari Comparison

Peak	Trough	Drop	+1 Year	+3 Years	+5 Years
May-08	Sep-08	-14.2%	65.6%	145.5%	

It is also possible to verify that the passive investment in Ibovespa did not fully capture the profitability potential that other portfolios have captured. One of the reasons is that here we are taking a snapshot of a theoretical portfolio at a given moment, while other portfolios end up making dynamic allocations, taking advantage of subsequent falls and changing their composition over time. As an example, we can verify that after the fall of 2008, while the index varied 31% and 25% after 1 and 3 years respectively, our vehicle varied 66% and 146% over the same periods.

Certainly the analysis is not statistically rigorous, since the sample is small. However, we can identify some interesting points.

First, relatively strong falls occurred regularly in recent years, averaging every 2.5 years. Second, buying after large falls seems to be a good deal, since the expected return, regardless of the timeframe verified, was good. Third, the timeframe for maximizing results seems to vary, although it seems that longer-term maintenance tends to produce better results, which seems consistent. Finally, returns turn out to be worse when the check periods match new periods of big drops.

How can we extend the above to maximize our returns in the long run?

A fact of life is we can expect, with a high probability, strong falls will happen in the future. We do not know what their regularity and intensity are, but we know they will happen.

Significant stock market crashes appear to be good times to start or increase equity investments. We do not think the index is the best asset basket to buy in the long run, but its fall is a good indicator. What we prefer is to invest in companies that we believe have low operating risk and good prospects.

Many authors preach the purchase through average price, that is, buy equal lots regardless of the price of the assets. This guarantees that the highest price will not be paid, but on the other hand it also does not generate a low average. Perhaps the best bet is to start buying with smaller declines, such as around 20% or 25%, and increase buying lots as the index increases the intensity of depreciation. Of course, it is easier to talk (or write, in the case) than to do, since in practice this dynamic requires a lot of discipline and we do not know how much the asset price will fall.

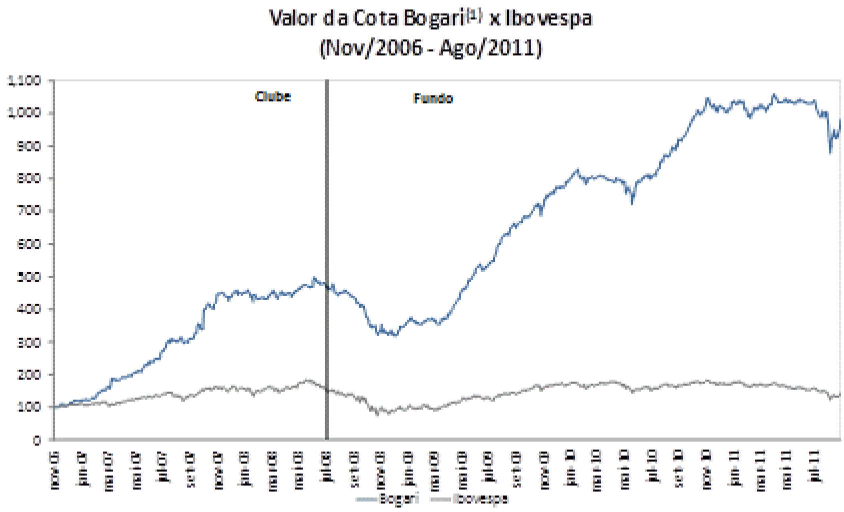
Anyway, the important thing is to have the strategy outlined and prepare before the occurrence of these events. Thus, when they occur, it is easier to execute the plan.

There is no perfect strategy or recipe to indicate when to buy a stock. But although the future does not exactly repeat the past, this can be a good proxy and we must learn from it. So it seems like a good idea to buy those assets after strong falls. In long periods of investment, increasing participation at lower prices tends to generate higher returns.

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%	0.0%	-0.9%	-2.9%	-2.1%					-4.8%
	Ibov	-3.9%	1.2%	1.8%	-3.6%	-2.3%	-3.4%	-5.7%	-4.0%					-18.5%
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

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, 11° 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