

BOGARI VALUE

Investor Letter 20, Quarter 4 2011 – Privatizations

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

In 2011, Bogari Value's performance was -0.5%, against Ibovespa's -18.1%.

Since inception¹, our total return was +928%, compared to +42% from Ibovespa. During this period, our NAV per share appreciated to BRL 1,028 from BRL 100.

Year	Annual Performance		
	Bogari	Bovespa	Outperformance(%)
2011	-0.5%	-18.1%	+17.6
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

Year	Accumulated Since Inception		
	Bogari	Bovespa	Outperformance(%)
2011	928.4%	42.1%	+886.3
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

2011 was a difficult year, as we always believed it would be. The global crisis has once again intensified with reduced growth in developed countries and the effects of their high levels of debt. The impact on emerging economies was mainly felt through the reduction – albeit temporary – in the prices of the main commodities.

The Ibovespa fell 18.1% while Bogari Value practically remained stable, falling 0.5%. In 2011, the fund has so far outperformed its benchmark by 17.6%.

In absolute terms, we were not satisfied with the result. However, considering the intensity of the stock market crash and the existence of a correlation between the portfolios, we believe that the result was quite satisfactory. Despite the difficult year, we managed to keep our goal of falling less

than the market. As an illustration, we note that to recover this loss we have to increase only 0.5%, while the index will have to increase by 22.1%.

2012 should be full of “excitement”, as seen in January. Besides the “unknown unknowns”, we will have new acts of trying to solve the European economic problems, the confirmation or not of the US growth and the possible Chinese downturn.

Notwithstanding, our portfolio continues to hold good assets at adequate prices and we believe that staying the course on our strategy – which translated into smaller drawdowns and consistently positive performance – should bring us good returns in the long run.

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 comment on our investment in Brasil Insurance. Following that, we will discuss the ongoing privatizations in Brazil.

Portfolio Commentary

Throughout the year, we made gradual changes to the portfolio as new opportunities emerged. Some investments matured and the prices of other assets became more attractive. Since the beginning of the year, we continue with positions in Itaú, Helbor, Tempo and Grendene. Throughout the year, we sold positions in Le Lis Blanc, Equatorial, Alpargatas and Eztec, among others. We have increased or acquired stakes in Redecard, Brasil Insurance and in other companies that we did not have opportunity to cover in our letters.

We continue to follow closely our companies, being attentive to new opportunities. The main assets of the portfolio continue to have good potential, although we believe that the market as a whole is not so cheap.

The big news that affected our portfolio in early 2012 was the announcement of Itaú's proposal to take Redecard private. As commented on another occasion, we believed that this event was possible however, we saw it only as an optionality without much value.

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.

This announcement – made at a time when the stock was at the highest level in many months – indicates that Itaú believes in the potential of the business and that possibly Redecard should be worth more to the bank when integrated with the rest of its operation. It really seems to make more sense for the bank to have more flexibility in its business policy with retailers and to offer facilities and product packages that could benefit either side of the chain without having the potential conflict of making deals with a company having a different corporate structure.

The market seems to believe in a possible price increase of BRL 35.00 per share offered by Itaú. We find the price offered to be low, both for the business as such and for the tax benefit of the amortization of goodwill from the acquisition. We are waiting to see how the story unfolds before taking a stance.

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. We maintain high liquidity, holding a 23% cash-position and being able to sell 90%+ of our holdings in 8 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.

Brasil Insurance

Brasil Insurance is an insurance brokerage company. Its proposal is to be a consolidator of this market, which is still very fragmented in Brazil. The company followed the model of Brasil Brokers, which is also a consolidator of brokerage firms, but in real estate. The main partner of Brasil Brokers is also the main partner of Brasil Insurance.

The quality of the brokerage insurance business is better than that of real estate. In the first we have a stable and recurring business revenue, not depending on the launches of a cyclical sector such as real estate. These characteristics encouraged us to study the company more in depth.

Brasil Insurance was created by the joining of 27 insurance brokers of the most diverse branches scattered throughout the country. The partners of the brokerage firms became shareholders of the company and gained shares according to their relevance. In addition, a portion of the shares that would be used to purchase these brokerages (6%) was reserved to be distributed two years later according to individual performance, further encouraging good brokerage performance. In total, between earn-out and non-competition contracts, the partners of the brokerage firms acquired are committed to the company for terms ranging from 6 to 7 years.

The business model of an insurance broker is simple and good. It is a business relationship, its revenue is recurrent and dispersed, does not require significant investments, has a good profitability, has low risk associated with claims of its

portfolio and is in an industry that should grow a lot in the coming years. Because it is a simple business and requires little capital, there is no significant barrier to entry in the sector, and as a consequence there are more than 60,000 qualified brokers in the country. While this high dispersion looks like a risk, it creates a great opportunity for market consolidation.

The idea behind consolidation is to have enough scale to be able to negotiate with insurance companies and health plan operators. Because it has scale, it is only natural that Brasil Insurance gets a higher brokerage fee for each policy issued, making insurance issued by a broker under its umbrella worth more than outside.

This makes the consolidation process easier because it is possible to acquire a brokerage house at a price that seems fair to it in an isolated context. But this same price ends up being "cheap" for Brasil Insurance, which can extract more from that same asset.

We also like the management's level of commitment. The main executives have a significant share of their assets in the company's stock, have a low cost culture and are doing a good job of involving and developing new leaders among the brokerage firms acquired. This point will be important as a new generation of executives take over the management of the company in the coming years.

The challenge of any company that makes many acquisitions – apart from obviously not overpaying – is to integrate the acquired assets quickly and without major problems, avoiding value destruction. In the case of Brasil Insurance, the advantage is that the operation is relatively simple, there are no complex systems and processes to be integrated. Since its inception, it has been necessary to integrate cash management, accounting and commercial management, as well as other traditional support functions. All fulfillment and customer collection process is done by insurers. The company suffered somewhat from some brokerages that did not perform as planned, however, given the business model and the large number of acquisitions, it was expected that some might have a problem.

In addition to organic growth, the company is focusing on increasing cross-selling among brokerage firms. As each portfolio company specializes in one type of insurance (health, auto, life, etc.), there is room for them to be able to sell new products to current customers with whom they already have a good relationship.

The scope for new acquisitions is still significant, especially in smaller brokerages that are not interesting to other players in the market. Usually the acquisitions are made part cash and part in installments of stock and cash earn-outs. It is probable that the cash generation of the company itself will be sufficient to cover the payment of the cash installments. This means that even acquisitions will require little cash in the next few years.

Since Brasil Insurance generates enough cash from its operations, requires few investments to grow organically and acquisitions end up requiring little capital, we believe that the

company has the potential to pay a very high share of profits as dividends. It is possible that its dividend policy will be revised to over 50% of profits.

There are some risks that should be monitored. The first would be to replace the figure of the broker as an intermediary between the insurer and the insured through direct sale. Nowadays there are already some brokerage houses with ties to some of the retail banks that are part of their brokerage. However, such sales are mostly made for opportunities originated inside their branches. We find it very difficult and improbable that the main Brazilian insurers try to "bypass" the brokers. This has been tried in the past without success, both due to the commercial power of the broker and their role in the sale. Insurance are specific products that require customer knowledge and customization.

Another risk is the growth of the internet distribution channel, in which the customer would choose his insurance via a brokerage or an aggregator. This movement happened most strongly in some countries where auto insurance is standardized and mandatory. We believe that the greatest risk here would be a major destruction of the value of the entire chain due to aggressive commercial offers. We do not think this will be the case in Brazil, but the company is already anticipating this possible move by buying one of the largest brokers focused on internet insurance in the country.

In short, we find the business simple, with a good model, great profitability, great potential for growth and well managed. As for the risks, they can be easily monitored and to some extent manageable. Additionally, the asset is very attractive for strategic players who want to enter Brazil. Thus, we find it likely that some foreign player will try to acquire the company in the future.

In recent months, we have taken advantage of a stronger stock drop to build up a larger holding for the fund. We believe it will be a good investment.

On Privatization, Aggressive Proposals and the "Big Problem Theory"

The privatizations were an important part in the process of reform and institutionalization of the country after the end of its military regime. President Fernando Collor de Mello was responsible for initiating the process in 1990, creating the National Privatization Program (PND). By the time his vice-president and eventual substitute Itamar Franco left the government in 1994, with the end of Collor's original mandate, companies in the steel, petrochemical and fertilizer sectors, in addition to Embraer, had been privatized.

Privatizations intensified under Fernando Henrique Cardoso's government [1994-2002]. In addition to the traditional benefits of better capital allocation and increased private sector productivity, the country did not have the investment capacity and needed the resources to sell the companies to improve its finances. As a result, new sectors were included: mining, energy, financial services and telecommunications.

Lula's government, having previously used privatization against the opposition in its electoral speech, was more timid with the process. He preferred another approach, selling, for the most part, exploitation rights rather than companies. The privatization process of the PT was developed by Dilma herself when she reformed the Brazilian electric power model.

After successfully auctioning several successful generation and transmission projects, the model was extended to larger projects and other sectors. With the exception of some state banks, Lula's main projects were concessions of federal roads and large hydroelectric projects, such as Jirau, Santo Antônio, Belo Monte and Teles Pires.

For the [incumbent Worker's Party] PT there is an advantage in selling rights rather than companies. In the first case, jobs are created, since the companies that would exploit such assets did not exist, in the second case there would probably be noise with unions because of layoffs.

Dilma, upon becoming president, continued this model, now with the privatization of some airports. Again, great care is taken with staff. From what we could see in the bidding documents for the airports, [government airport management company] Infraero employees can choose to transfer to the new concession-holders, upon which they will have a 5 year job guarantee.

In addition to the "no layoff" aspect of the PT privatization model, the focus became to get infrastructure for the country off the ground. At first, the cash collected by the State was not prioritized, with the transfer of benefits to society, through cheaper tolls and energy tariffs. As for airport concessions, the government's thirst for income resumed under the justification of subsidies to regional aviation, with the payment of the concession being made over the concession period.

We reach here the second point of our discussion. With the prioritization of the focus on the construction of new infrastructure, there was a postponement of the cash outflow of the projects. Instead of having to pay large amounts in cash or in a few installments to take over the privatized company, the flow of disbursement has been diluted throughout the works of the concessions or the period of granting, in the case of airports. Moreover, when FHC sold companies, most of the debts of the auctioned companies were out of the balance of the concession holders, while in the case of new infrastructure projects these debts are on the balance sheets of the concession holders themselves.

The difference seems small, but it is not. In case of failure of an acquired company, the concession holder possibly will suffer, but who loses more is the controller who paid for that acquisition. This is because Brazilian tax legislation greatly limits the controller's ability to absorb the subsidiary's cash position. In addition, regulatory agencies tend to limit the volume of concession-holder debt to prevent it from affecting their financial health.

In the case of a concession with limited tariffs and large financial obligations, the risk of the project becomes directly

that of the concession holder. Excessive leverage increases the chances of affecting their financial health, and may theoretically interfere or prevent them from continuing to service the population. However, we have a temporal aspect here, because at first the sales process seems a success, while the problems will only appear in the future, probably a few years down the line.

Of course, very aggressive proposals to win bids only intensify the problem. If under normal conditions a tender is designed to give a profitability of 8% pa, however efficient the concessionaire is, it seems to us unlikely that the profitability of the projects will be attractive if there is a discount of 50% in the tariffs, in the case of tolls, or a 500% premium in the case of airport concessions.

In the case of road concessions, what has been happening is the postponement of several investments to adjust the cash flow of the concession holders. The fault is not the concession holder's, the problem is that "the approval for start of works is delayed ...", after all everyone knows how environmental approvals in Brazil are time consuming. Of course, this "contract operation" may be legal, but it hinders the development of the country. It would be possible to say that a more adequate or realistic tariff would have better results for society.

The concession of the airports will possibly be no different. Some consortia that participated in the process thought that in the minimum conditions of the edict, Viracopos, for example, practically did not generate return. By including a goodwill of 160% over the initial bid, it seems to us that the situation is significantly worse.

Finally, we will address our third theme, "The Big Problem Theory." This theory is simple, it proposes that if a company has to "create" a problem, that this one is very big, therefore someone will have to help later. The Big Problem Theory is from the "too big to fail" family in the financial system. So if you have a problem, let it be big, too big, so the chances of

finding a solution increase. If the problem is small, maybe no one will come to the rescue.

Thus, with the support of widespread media disclosure, the "victorious" consortium model has become relatively simple. Very aggressive proposals, sometimes from lesser groups in the Brazilian market, which may force the government to solve the "big problem" that has been created. Now imagine if the asset is strategic to a World Cup or Olympics, further enhancing the bargaining power of the bidder.

It may be possible to identify examples of this model in past processes, such as the change of the construction project of the Jirau plant, the construction of the winning consortium of Belo Monte, the privatization of the federal highways, the auction of the São Paulo highways and the airport concessions.

Unfortunately, what is missing from the government is having enough personality to assess the reasonableness of the proposals and enforce the contracts. On the one hand, the government tries to present the initial success of the process, with large premiums paid by private investors. On the other hand, the market knows that it is quite unlikely that the project will stand in those conditions. And in the end, either the users end up suffering from the lack of improvement of the services or the government has to act and find a way to solve that "big problem".

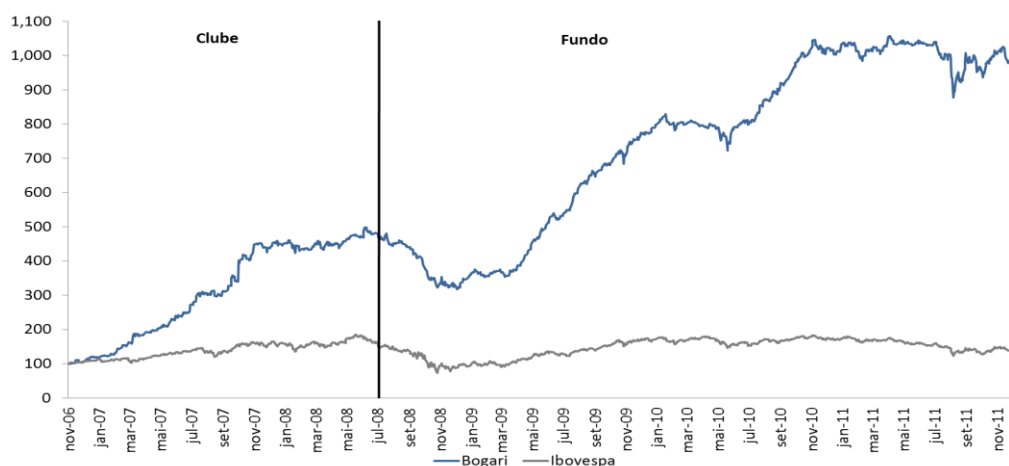
These issues are part of the country's development process. Possibly, one day these exaggerations will be avoided. As for the processes already underway, we can only repeat what an executive from a losing group said after the airport auction: "let's hope it works"

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%	-1.9%	4.2%	0.8%	1.5%	-0.5%
	Ibov	-3.9%	1.2%	1.8%	-3.6%	-2.3%	-3.4%	-5.7%	-4.0%	-7.4%	11.5%	-2.5%	-0.2%	-18.1%
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 - Dez/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.



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