BOGARI capital

BOGARI VALUE

Investor Letter 3, Quarter 1 2009 – Real Estate Sector

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 February 2009, Bogari Value's performance was +4.3%, against Ibovespa's +1.7%.

Since inception[1], our total return was +275%, compared to -4.4% for Ibovespa. During this period, our NAV per share appreciated to BRL 375 from BRL 100.

	Annual Performance		
Year	Bogari	Bovespa	Outperformance(%)
2009	4.3%	1.7%	+2.6
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(%)
2009	274.8%	-4.4%	+279.1
2008(1)	259.3%	-6.0%	+265.3
2007(1)	349.6%	60.0%	+289.6
2006(1)	18.7%	11.4%	+7.3

Portfolio Commentary

Our portfolio has shown little correlation with the Ibovespa, which is to be expected. The main reason is that we still do not have shares of companies linked to the commodities sector. As we stated in our previous letter, we have maintained this policy since 2006, as we believe we have not yet reached the lows of the new cycle we are entering.

Over short periods, we believe that there will be some distortions when comparing our performance to the Ibovespa, as in January. At that time, commodity companies such as Vale and Petrobras – which had more liquidity and were more affected by the crisis – had a strong recovery. For some time our performance was below the benchmark. In the meantime, we are running a marathon, not a sprint, and we believe there are other assets with better risk-return in the long run, even if they take longer to be recognized by the market.

We are very excited about the prospects for our portfolio in the long run. Gradually, we are acquiring good assets, in good financial stance, with good prospects and – most importantly – at great prices. Our top position makes up 10% of the portfolio, our top 5 positions reach 50% of our equity and we still have a cash position of almost 14%.

We continued the process of reallocating the portfolio, selling some companies with lower potential for appreciation and liquidity to other more liquid and with greater upside. In addition to good growth potential for the coming years, most of the companies in our portfolio are showing a high dividend yield, some having even paid an 8% dividend.

We are more diversified and with a cash position a little above the usual. Diversification is a precautionary measure for the sharp decline of some assets when a relevant investor needs to sell their position to build up liquidity. Although this type of drop is occurring less frequently, its likelihood of occurring is still high, so we remain cautious.

The larger cash position exists precisely to take advantage of these indiscriminate sales. When these falls occur in shares that we want to buy, we seize the opportunity.

In addition, our portfolio has a high liquidity ratio. We have the ability to turn more than 67% of the assets into cash in just one day. Although this ratio is quite high, it has little practical relevance, since our investors focus on keeping their assets invested over long periods. Such is the commitment of our clients that the Fund has not seen any redemptions in the last 12 months.

Real Estate Sector

We are excited about some opportunities in sectors that are out of favor nowadays. We believe that the market did a good job of adjusting these sectors since they were very expensive, however – as always – there were some exaggerations. Particularly, we are excited about some companies in the real estate, service and financial sectors. In this letter we will discuss some aspects of the real estate industry.

The real estate industry in Brazil, unlike the rest of the world, still has a very interesting long-term perspective. The real

[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.

interest level is for the first time reaching relatively low levels (less than 6% pa) and the Central Bank rate can reach a single digit in the short term. For the Brazilian economy, as we know, this is a fantastic and unprecedented event. Undoubtedly, the monetary easing will stimulate the real estate sector by offering adequate products and credit lines.

The real estate development and construction industry is not easy; however, it has great growth potential, good profitability, quality companies and interesting business models. Additionally, their stock prices are extremely low.

The complexity of the industry comes from its basic business process. The developer must identify land at an appropriate cost, understand the existing demand in that region, develop a product that meets this demand, approve such a project with the competent bodies, sell, build and deliver to customers the products purchased. Each project is different from the other, with its own cycle and limited time frame. The business demands enough working capital for the company and credit to enable the purchase by the customer.

Considering the complexity of the business above, we focus sharply on how we position ourselves in the industry and the entry price. Therefore, when selecting our assets, we look for: conservatism of managers, financial commitment of the controllers, balance of quality, consistency in the company's history and managerial ability to deliver on their promises. Given its intrinsic volatility, this is a sector we prefer to be positioned in companies where management and controlling shareholders are run by families rather than by executives. So the financial commitment of company management is high.

We believe that in this type of business, scale is not a big differential. In fact, we find that size increases disproportionately the complexity and risk of the business without the obvious counterpart of cost savings or pricing power.

The reasoning is simple. To increase the revenue of a real estate company, roughly, two measures can be taken: increase the number of projects or increase the average PSV (Sales Value) per project. Increasing the number of projects greatly increases the complexity of the operation. As for the increase of the average PSV per project, it increases the risk of the company in case of the commercial failure of a project. It is one thing not to sell a project of BRL 50mn of PSV, and an entirely different one not to sell a project worth BRL 500mn.

Even if a low average PSV is maintained, it is quite reasonable to assume that it is easier to find 10 good projects than 100 good projects. Theoretically, the increase in the number of projects should reduce the marginal profitability of each additional project or its quality, other factors remaining equal.

We believe that the gains in scale in purchasing supplies and contracting services are not so relevant. For this reason, it is not uncommon for companies to outsource works for a fixed cost. We also failed to see a correlation between size and pricing power better than the market average.

The Brazilian stock market has had an oversupply of shares of real estate companies in the last 3 years, when more than 20 companies had IPOs. In Brazil there was not a real estate bubble, but a stock bubble of companies linked to real estate. When the crisis hit, many companies lost up to 90% of their value. Many of the companies that have launched billions in real estate have found themselves without credit to develop or complete their ventures. Many analysts thought that with the speed of the launches there would be a shortage of credit to acquire the real estate. What actually occurred was a lack of credit for the companies themselves, mainly corporate debt, but in some cases also production credit(construction).

As usual, the market ended up punishing the industry indiscriminately. What happened in the months following this correction was the adjustment of the real operation of the companies. Many managed to avoid a more delicate financial situation by reducing and canceling launches. Several others – almost 10 of them – resorted to capital increases. Currently, we believe that the companies in the sector are practically sound. There are still a few cases in a situation of stress, but we think that, in general, the situation has improved much.

Our biggest concern when we position ourselves in a company that has potential for appreciation is to have time on our side. For this, in this particular case, we have to acquire companies with adequate balance sheets and business models that should not resort to any capital increase in the coming years. The reason is simple:

Let us imagine that the fair value for a company is its book value ("BV"), that is, the company is worth 1x BV. If we buy the stock at 25% of the BV (or 0.25x BV) and the company creates value, over time the trend is that its trading price converges to 1x BV, generating a potential for valuation of 4x plus retained and distributed earnings over the period.

When there is a capital increase, out of necessity or for less noble motives, the upside that existed for the original shareholders is shared with the new shareholders. Returning to our previous example, if the company had 100 shares and issued 100 more shares at market value, that is, 0.25x BV, the company would have 200 shares and a book value of 1.25x BV. That is, each share would have a fair value of 0.625x BV, while the share would be trading at 0.25 BV. The upside that was 4x diminished to 2.5x. This is called dilution.

Due to dilution, almost as important as buying cheap, is having reasonable assurance that the balance supports the proposed growth and that the controlling shareholders thinks about the benefits for all shareholders.

Although this is not the focus of this report, we would like to emphasize that the law guarantees the preemptive rights in private subscriptions, that is, that the shareholder of the company is entitled to buy shares at that price if they find it interesting. What the law does not guarantee is the economic return on investment the way it was. In the example above, at the outset, the shareholder had 1 share with a potential of 4x returns and later would have 1 or 2 shares (2 if it was a capital increase) with a potential of 2.5x. Receiving the same financial value generates a different return when we have 1x or 2x the capital.

Considering all these aspects, we will now tackle two companies in our portfolio, Eztec and Helbor. We will be brief in the presentation of these due to space constraints.

Acting in the same industry, one could not be more different than the other. Eztec is a family-owned business with over 40 years of industry experience. Its main differentials are: the solid balance sheet (the best in the sector), its operational integration (it operates in the development, construction and sale of a good part of the units), a very low cost structure (one of the largest margins in the market) (average of 9% of PSV) and commercial conservatism (they only launch the development when it reaches a minimum volume of pre-sales).

The stock is trading at such a low price that the company's net assets (around BRL 300mn) are worth more than its stock market value (BRL 290mn). We believe that in 2008 the company had a profit of around BRL 100 million, and should pay a dividend of 6-8% of the value of the share. The company is trading at 3x 2008 profits and around 2x 2009 profits. Both the company and the controlling shareholders have bought shares of the company intensely in recent months, which we consider positive.

Helbor has a very different model. The company is also familiar with a long history of more than 30 years in the industry. The company acts in practice as a REIT. Helbor does not build and sell its real estate directly. The company identifies opportunities, develops the product, manages the entire outsourcing chain and coordinates the commercial launches.

Helbor has developed a very interesting risk management technology through geographic diversification, by segments and by product type. Like Eztec, ventures are only launched when there is minimal demand. Additionally, the average size of each venture is BRL 50mn, to avoid large concentrations of sales in a project. Of course, risk management will possibly bring a limitation on the size of the company in a few years, but the operational risk will be quite limited.

In terms of value, the company is now trading at something like 2.5x 2008 profits and 2x 2009 profits. Now in April it should pay a dividend of 6-8% of the share value for the year 2008. Our main concern is the small need for additional cash that the company will have in 2010.

Despite different operating models, both companies have risk management and operational conservatism as their relevant characteristics. While Helbor manages its risk primarily through the diversification and limitation of the average ticket, Eztec creates "space" for inefficiencies by purchasing very cheap land and a very lean cost structure. As an example, Eztec is located in two houses in Moema, São Paulo, which have 50k sq ft at a monthly cost of BRL 300k, or BRL 60/sq ft/month. For those who do not know São Paulo, this value is almost 90% lower than what would be reasonably cheap.

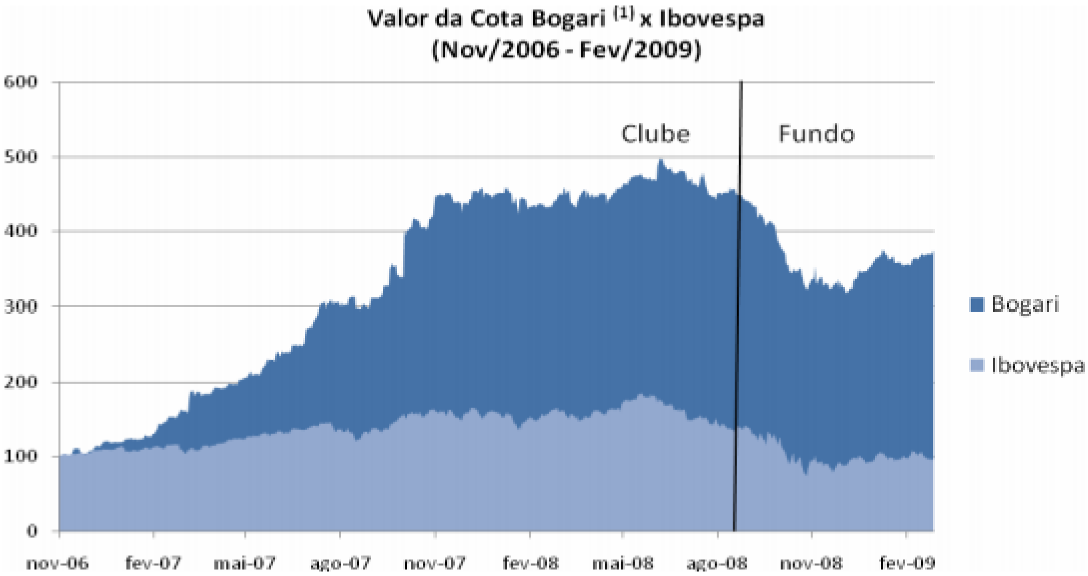
The crisis we are experiencing may slow down the growth of companies, but it will not take away the industry's attractiveness. In our conversations with several companies in early March, it became clear that real estate sales volumes in the first two months of 2009 were not as bad as the companies themselves expected. Some are even believing that it is possible to grow compared to 2008. With interest rates falling and the housing package that the government will be launching in the coming weeks, it is possible for sales velocity to improve.

Finally, we are quite comfortable with the industry and both companies we invest. We believe that the risk is limited and that the potential for recovery is very high.

Thank you for your trust.

Monthly Returns (BRL – Net of Fees)

		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	YTD
2009	Bogari	-1.2%	5.5%											4.3%
	Ibov	4.7%	-2.8%											1.7%
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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