

**BOGARI VALUE**

Investor Letter 6, Quarter 3 2009 – Miscellaneous

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 August 2009, Bogari Value's performance was +82.9%, against Ibovespa's +50.4%.

Since inception<sup>1</sup>, our total return was +557%, compared to +41% for Ibovespa. During this period, our NAV per share appreciated to BRL 657 from BRL 100.

Annual Performance			
Year	Bogari	Ibovespa	Outperformance(%)
2009	82.9%	50.4%	+32.5
2008 <sup>(1)</sup>	-20.1%	-41.2%	+21.1
2007 <sup>(1)</sup>	278.8%	43.7%	+235.2
2006 <sup>(1)</sup>	18.7%	11.4%	+7.3

Accumulated Since Inception			
Year	Bogari	Ibovespa	Outperformance(%)
2009	557.1%	41.5%	+515.7
2008 <sup>(1)</sup>	259.3%	-6.0%	+265.3
2007 <sup>(1)</sup>	349.6%	60.0%	+289.6
2006 <sup>(1)</sup>	18.7%	11.4%	+7.3

Our performance was very positive in the last two months. Over this period, the market continued to correct the great distortions that occurred in the crisis, pushing up prices of assets that had fallen too much. We believe that this movement will continue in parallel with improving fundamentals of the companies.

Our view is that first-tier assets are adequately priced. The rally of the last six months brought the price of such assets close to their fair values. However, we are still excited about several companies in our portfolio, both because of their quality and their potential for appreciation in the coming years.

We always like to remind our readers that the level of performance posted this year is not replicable over the long term. What we expect are more moderate returns, spread over longer periods, between three to five years.

**Portfolio Commentary**

We implemented the biggest change in our portfolio in the last two months: while Helbor, Eztec and Paraná Banco continue to be relevant positions, we have also included Kroton in this group, at almost 10% of the portfolio.

We still believe that Eztec and Helbor are cheap and are the best real estate investment vehicles, combining the attractive prices of their shares with the quality of the companies.

The results of the second quarter were very good, both in terms of launches and sales, as well as the operational delivery of the properties. Even with the high appreciation in recent months, there are few companies in the stock market with this level of quality that trade at prices similar to them.

In terms of results, Paraná Banco was the biggest surprise of the period. Excluding Bicbanco, its profitability in the second quarter was the highest among medium-sized banks, of 17.9%, reaching 13.9% in the first half. The insurance and reinsurance businesses accounted for almost a third of the bank's result.

Surety bonds sales, the focus of Paraná Banco (via JMalucelli, insurance company and reinsurer), has been growing consistently. The volume of premiums issued in the first half of 2009 is equivalent to 85% of the full volume of 2008. This growth trend seems robust, confirmed by the regulation of this type of insurance by the Attorney General of the National Treasury (PGFN). As of August, taxpayers were able to use surety bonds as an alternative to judicial deposits or asset mortgages, with security and without questioning by judges.

In addition, JMalucelli Seguradora has entered into an agreement with Caixa Seguros to guarantee Caixa Econômica's completion of the Minha Casa Minha Vida program. This program aims to build one million homes and an estimated PSV of almost BRL 100bn over the next few years. It is an agreement that will potentially generate a very high volume of premiums for the insurer, which may be transformational to the business.

The bank has reduced its costs and has been successfully increasing its margins on financial intermediation. Losses have increased, but remain low, in line with expectations for payroll loans. Even though we know that the profitability of Q2 will hardly be repeated during this year, we are excited

<sup>1</sup> The vehicle was founded on 1 Nov 2006 as a private investment vehicle. On July 8, 2008 it was transformed into Bogari Value FIA.

about the results achieved and the prospects for the future of the company.

At the current rate of growth for the insurance industry, it is possible that in a few years the Paraná Bank will be valued as an insurance company with a banking arm and not a bank with an insurance arm. Apparently, the market has not yet realized this change.

As we wrote in our last letter, we did not like Kroton's capital increase operation. Even so, we took advantage of the opportunity in which the stock prices dropped sharply in order to increase our position. Our rationale stems from deepening our understanding on our major concerns: how to allocate the new capital and the consequences of a higher rate of growth.

Regarding the first issue, we believe that the company has been prudently allocating capital from the IPO. In general, the acquisitions remained within the company's development plan and the prices paid were not excessive. The company's executives were very emphatic in maintaining this rationality, even with the entry of a new partner.

The consequences of a high growth rate remain an issue we follow closely. We understand that the company has been developing its control and management tools in line with what we consider appropriate. We also know that the decentralized management of educational operations is at the origin of the company's operations, through the provision of services to elementary schools. Even so, we are concerned about the potential lack of operational control that high growth rates usually generate.

Our comfort lies in the economic alignment of both the management and the founding partners. Both groups have significant resources and efforts invested in the company, so we believe that, as far as possible, rationality and caution will prevail.

Finally, we understand that a business of this quality in the Brazilian educational market – with a great potential for growth and consolidation – is being negotiated at a very attractive price. Even with the appreciation of the stock since our first acquisitions, we like the potential foreseen for the coming years.

We believe our portfolio continues to have adequate diversification. Our largest position is currently 12% of AUM and top 5 combined are around 40% of AUM. Our liquidity level is relatively high, holding a 18% cash-position and being able to liquidate around 67% of our holdings in 2 days. We continue to hold good assets in our portfolio, at attractive valuations, and with great prospects for the next few years.

## Corporate Actions (continued)

In our last report we made some comments about the Duratex-Satipel operation. The main point raised was the incorporation of the common shares of the controlling shareholders of Duratex by Satipel for an exchange ratio

different from that offered to minority and preferred shareholders of the same company.

We felt that the Duratex controlling shareholders should not vote on the merger resolution of Satipel and we believed that the CVM guideline opinion 34 (adjusted to the circumstances) should be applied in this case.

We are pleased that the decision of the CVM Board on this matter is in line with our argument. Such deliberation had effects on the transactions of VCP-Aracruz, Sadia-Perdigão, in addition to the aforementioned Duratex-Satipel. In the first case, the exchange ratio changed for preferred shares, whilst for the others, the controller was prevented from voting on the matter.

## Miscellaneous

We would like to take the opportunity to post a column that recently appeared on the "Guest Manager Column" in the financial daily, Valor Econômico:

### **Against The Flow: Challenges of Long-Term Investing** Valor Econômico (August 8<sup>th</sup>, 2009)

Public equities are normally associated with a style of investing requiring long-term vision. However, it is common to observe that investors who keep shares for a long time are the exception rather than the rule. It is common to see investors buy and sell their holdings multiple times over a short time span. Studies in various markets indicate that the average holding period for a stock in an investors' portfolio has decreased in the last decade. We have attempted to understand the reasons, and have identified four factors.

The first factor comes down to human behavior. Regardless of the findings in the field of behavioural finance, it is intuitive to assume human beings are not equipped for inactivity. Keeping a stock in a portfolio for many years is not natural, all the more when we consider the immediatism and speed with which things happen in today's society. It is worth reminding that the stock will be negotiated daily during the period over which it will be held in the investor's portfolio, ticking up and down every day.

The second factor pertains to the large amount of information in circulation today. According to Richard Saul Wurman in his book "Information Anxiety", a daily edition of The New York Times contains more information than a common person of 17<sup>th</sup> century England would have seen in their whole life. The internet as a source of real-time information further exacerbates this trend. To a potential investor, this bombardment of information can be detrimental to formulating their own opinion.

The third factor is related to the way in which the stock market is currently structured. Stock brokers make money from activity, not inactivity. In other words, the greatest share of revenues from stockbroking firms comes from acting as a broker for the purchase and sale of stocks. Therefore, the focus of their marketing campaigns is centered on the act of buying and selling, shorter-term strategies, charts, etc. A

client with less assets and more activity is better than a client with more assets and less activity. The stockbroking firms themselves help generate and distribute even more information to their clients through their reports, recommended portfolios, TV channels or online chats. All this flow generates a momentum favourable to trading.

Finally, a healthy aspect of Brazilian law has its own negative effect. The need to publish daily NAVs for regulated funds certainly brings robustness and greatly benefits the fund business. We would never make a case for any changes in that regard. We find the system as a whole to be very good. However, there is no denying the availability of daily NAVs and their constant updating create investor anxiety and propensity to immediatism, itself already a human trait.

Combining all the above-mentioned points with the convenience of trading stocks via online brokers, we believe it is only natural that the average investor has an ever-increasing short-term bias. If among professional investors this short-term bias is hard to control, it is a formidable task for the amateur investor.

Fortunately, to those who have a long term investment horizon, these are the behavioural differences which set the stage for opportunities to obtain enhanced performances. For long-term investors, the stock market exists to serve their objectives, and not to tempt them to take an action based on impulse. In our case, the stock market is just a marketplace where it is convenient to buy and sell shares in businesses. Therefore, we may keep a holding in our portfolio for as long as it suits us.

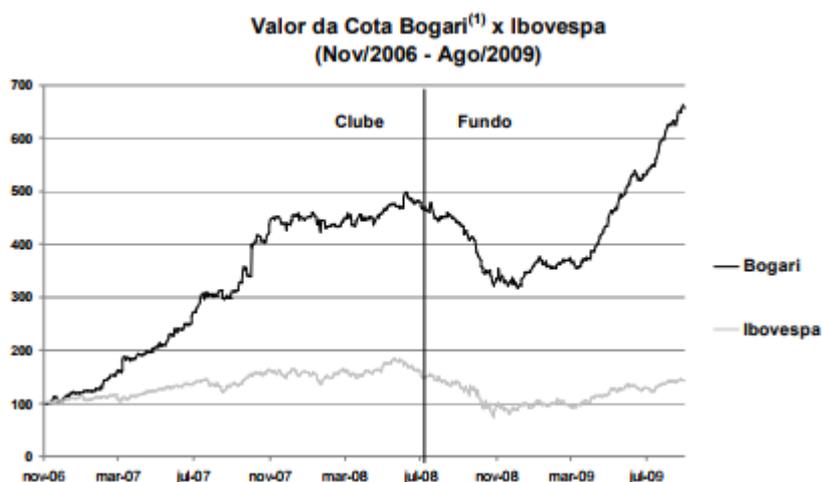
We do not believe in a single winning strategy. Long-term investments in public equity markets (buying adequate assets) is the strategy we know in depth, which is widely proven academically, and with which we have had excellent results over the last few years. Any strategy is valid, so long as it generates consistent returns.

The goal of this article is simply to draw attention to the current environment in which investors operate, so that they may prepare against short-term traps and control the activity level of their transactions.

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%	-0.9%	21.3%	12.3%	5.1%	15.1%	7.3%					82.9%
	Ibov	4.7%	-2.8%	7.2%	15.6%	12.5%	-3.3%	6.4%	3.1%					50.4%
2008 <sup>(1)</sup>	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 <sup>(1)</sup>	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 <sup>(1)</sup>	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)

<b>Administrator</b>	BNY Mellon Serviços Financeiros DTVM S/A	<b>Subscription</b>	T+1
<b>Manager</b>	Bogari Gestão de Investimentos Ltda.	<b>Redemption</b>	T+30
<b>Distributor</b>	BNY Mellon Serviços Financeiros DTVM S/A	<b>Settlement</b>	T+33
<b>Custodian</b>	Banco Bradesco S.A.	<b>Management Fee</b>	2.175%
<b>Auditor</b>	KPMG Auditores Independentes	<b>Performance Fee</b>	20% over Ibovespa (w/ high watermark)
<b>Minimum Investment</b>	R\$ 50,000.00	<b>Anbima Identifier</b>	212962
<b>Minimum Balance</b>	R\$ 50,000.00	<b>Classification</b>	Equities Ibovespa
<b>Minimum Transaction</b>	R\$ 10,000.00	<b>NAV</b>	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.

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

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