BOGARI capital

BOGARI VALUE

Investor Letter 7, Quarter 4 2009 – Risk

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 October 2009, Bogari Value's performance was +96.0%, against Ibovespa's +63.9%.

Since inception[1], our total return was +604%, compared to +54% for Ibovespa. During this period, our NAV per share appreciated to BRL 704 from BRL 100.

	Annual Performance		
Year	**Bogari**	**Bovespa**	**Outperformance(%)**
2009	**96.0%**	63.9%	+32.1
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	**604.3%**	54.1%	+550.2
2008[1]	**259.3%**	-6.0%	+265.3
2007[1]	**349.6%**	60.0%	+289.6
2006[1]	**18.7%**	11.4%	+7.3

Although very satisfied with our performance over the last three years, we remain – as always – cautious regarding the future. We think that over periods of three to five years we can generate good returns, although probably on a smaller scale than those obtained so far.

In recent weeks the market has continued its euphoric trajectory. This time, the story is that Brazil really seems to be the country of the future, even entitled to host the Olympic Games. Our view is that such a wave has further increased the price of first-tier assets, which were already well priced.

In the following sections we will talk about our portfolio, a new position we set up and discuss our views on risk.

[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.

Portfolio Commentary

In the last months, we have added a new significant position to the portfolio, which we will comment on shortly. The other holdings remained practically unchanged.

We had the opportunity to meet with the top executives from each of our construction companies, Eztec and Helbor. Everyone is very excited about their operations and their markets. The companies announced excellent results for Q3: Eztec a profit of BRL 50mn and Helbor BRL 24mn, both with strong sales in the year. We continue to believe that these companies are still being traded at prices below their intrinsic values and that, with good prospects for the next few years, remain good investments.

Under the influence of the new controlling shareholder, Kroton has been implementing some operational changes. The company announced the entry of a new CEO, with a long history of acting in the financial market. The M&A activity is expected to resume in 2010, and we expect transaction prices to be at reasonable levels.

We set up a position in Tempo Participações. We thought it worth making some comments about the market's perception of the asset, the business, and the investment opportunity.

The market's perception. Talking about Tempo with other market players is an interesting exercise from the point of view of independent thinking. The main comments are that the company has a business model that is not obvious, its communication with shareholders leaves much to be desired and the quality of its financial information needs to improve.

The first time we analyzed the company we were not very excited, for exactly the reasons mentioned. Evaluating further and talking to controlling shareholders and executives, we came to the conclusion that the company is at the point we like.

The company. Tempo Participações has three lines of business: dental plans, health plans (pre and postpaid) and assistance services (such as towing, locksmiths, etc.). This business was formed through several acquisitions during the last years in the health and dental segments and with the merger with USS Assistência in 2006. Its IPO was carried out in 2007 at BRL 7.00, today its share is traded at BRL 3.50.

The common feature of each of the businesses is the existence of dispersed networks of nationwide service providers, centralized call center and specialized processes for each type of business. The company does not own any significant physical assets, which makes it potentially a large cash generator.

The dental care service is mainly provided by Odonto Gama. With the merger of Odontoprev and Bradesco Dental, Tempo is now the third largest player in the industry. The company is likely to benefit from reduced competition and greater rationality in the sale of services by all players.

The health insurance business is provided in two ways: postpaid and prepaid. In the former, Tempo provides service to large companies that take the risk of their employees and their dependents. The growth of this model is a worldwide trend in this segment. In the second, Tempo sells corporate plans and takes its risk. The company started to operate in this segment recently, with the acquisition of Unibanco Saúde Seguradora, pending ANS [National Health Services Regulator] approval.

The assistance service is provided through USS to large groups, mainly insurers or financiers, who incorporate it into their products as benefits to final consumers. This market has three major players, of which USS is the largest.

The company's results in recent years have suffered greatly from the growth strategy adopted. Because its business is process and systems-based, the integration of acquisitions demands great operational discipline. Until March, the company's CEO had an investment banker profile, which enabled the strong execution of transactions and ended up leaving the consolidation of its activities in the background. In April 2009, this CEO was replaced by a professional with a focus on operational execution.

The new CEO is highly regarded in the market. Known as a process person, he has a good sense of what should be done in operational, strategic, and stock-market terms.

The opportunity. For us, the investment opportunity is very favorable, since it has a high probability of generating good returns in three to five years and a low probability of the asset losing value over that period. The main reasons are:

(i) Stable business model, cash generator and with low investment needs – the company has three different businesses that are good cash generators. The new management has focused on the unification of processes and systems, the improvement of productivity and the implementation of management tools.

(ii) Strong balance – the company has net cash of approximately BRL 150mn (not including the second installment of the Unibanco Seguros acquisition), which gives us a good cushion for any eventualities.

(iii) Shareholders with a history of value generation – GP is one of the main shareholders of the company and is apparently committed to its improvement. The Moreira Salles family is also an important shareholder, which generates good security in the contracts with Itaú Unibanco.

(iv) Low stock price – considering the cash, the price we pay for the company (even with adjustments in results) is much lower than its fair value.

In addition to the operational turnaround, the company will have to make a major effort to carve itself a place in the capital markets. Fortunately, the new CEO knows this and believes his new CFO will spend a significant part of his time on this. In addition, these new executives are receiving good portions of stock options with an exercise price close to BRL 3.00 per share.

In summary, we believe that the likelihood of the company improving from an operational standpoint is significantly high. This is because we are positioned in a set of businesses with good stability, generating cash, with strong balance and a team of good executives. These characteristics give us the necessary comfort to expect this improvement.

We believe our portfolio continues to have adequate diversification. Our largest position is currently 10% 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.

On Risk

We regularly mention that we do not consider volatility to be a good measure of risk for our Fund. We would therefore like to discuss some ideas on the theme.

As we understand it, measuring risk through volatility makes sense when the investment can be liquidated at any time. In this case, it is important to know the “behavior profile” of the asset’s price. The advantage of this measure is the convenience of calculating through historical information. The main downsides are the fact that the past is not necessarily a representation of the future, and the fact that the company’s operational aspects are not taken into consideration.

Additionally, according to the theory, one must incur more risk to obtain an above-market performance. This theme has been widely debated in academic circles over recent decades, and we shall not delve any further. But, in theory, in order for our Fund to have a market-beating performance, we should have higher volatility. Our historic performance shows that clearly this theory does not hold true since our volatility this year is 14.2% versus the Bovespa’s 31.9%, and our clearly superior performance.

As a consequence one might ask: “if volatility is not risk, then what is risk?” In order to answer this question, we need to highlight one of the principles of our investment philosophy: “In the long run (3 to 5 years), the negotiated price of a stock in the market converges towards the asset’s intrinsic value”.

In the private markets, where companies are not publicly negotiated, we may consider that the assets’ prices correspond to their intrinsic values. Normally, buyers and sellers are rational, and buyers may perform due diligence on the target-company, increasing their knowledge of the asset.

Furthermore, in the private markets the risk of the investment tends to be that of the business' fundamentals. So long as the investor is patient, does not overpay for the asset, and if the latter generates value and has some growth, the probability of losing money is low. On the other hand, value-destroying assets are rarely sold for prices which do not reflect their realities.

In public markets, in the short term, risk may be reflected by its volatility. However, for long-term investments, risk tends to pertain to the business, as is the case in private markets. This is because in the long run the trading price converges towards the business' intrinsic value so that, should it deteriorate, the same should happen to its share price.

Therefore, to understand what sort of risk we are exposed to, it is necessary to understand the business model of the company and its capacity to create value over the next few years, much like is the case for private investments. To us, the risk of each share reflects the company's business risk.

So, how do we minimize this risk? Specifically, we minimize risk if we acquire a portfolio of assets at fair prices, presenting low probability of losing value over the following years. In a simplistic form, the main characteristics these businesses should present are: (i) tried and tested business model, (ii) suitable returns, (iii) some growth, and (iv) low indebtedness.

There are many reasons that lead a company to present those characteristics including the quality of its people (controlling shareholders and executives), competitive advantages, barriers of entry to their markets, etc.

Additionally, public equity investing presents some advantages over privately negotiated assets. First, we may purchase holdings in businesses which are irrationally cheap, as is generally the case during crises and in isolated cases at other times. Secondly, we have liquidity, which allows us to exit an investment when we wish, for rational prices or not. Thirdly, we have the option to exit the business if something goes wrong, which is not always the case in a private investment.

The challenge of working with this concept of risk lies in the complexity of translating it into numbers. As an example, we may try to define the inherent risk of an investment like Tempo Participações by answering the following question: What is the probability of the business losing value in the next three to five years?

Imagining the asset is worth R$5 per share, and assuming it to be trading at R$3.50, we have a safety margin of 30%. Ignoring our cost of capital, in the long run we would lose money if the asset were to devalue by 30%

Now, what is the probability of a reasonably stable business, generating cash, with good potential profits and no debt, losing over 30% of its value in three years? It is quite low, probably between 1-5%.

A reasonably diversified portfolio, composed of different assets, with low correlation between themselves, and possessing solid fundamentals tends to have a substantially lower risk than any individual asset. Likewise, risk as measured by volatility also decreases with diversification.

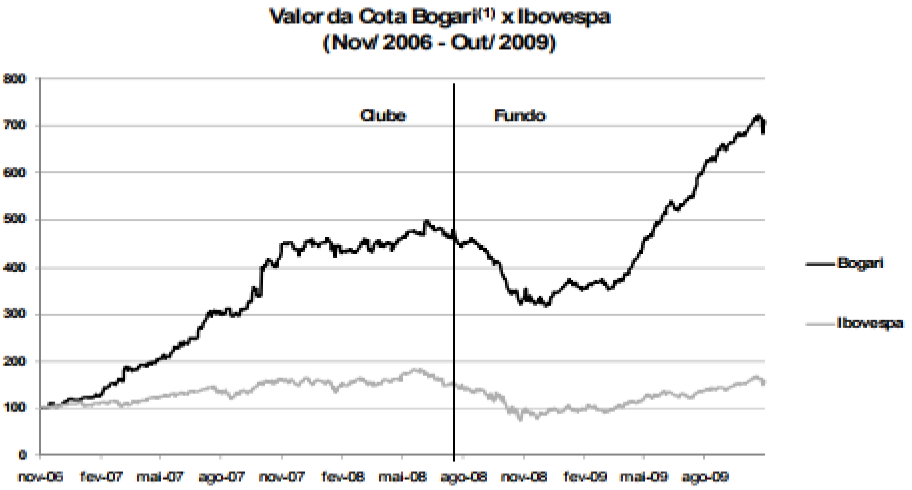
Therefore, when building our portfolio of investments, we are careful to acquire assets with good fundamentals, presenting the above characteristics, and in sufficient quantities to provide us with adequate diversification.

Despite the complexity of presenting a single number which represents the level of risk in our portfolio, we find solace in knowing its low operational risk is a result of our investment process, which indicates a diversified and value-generating portfolio over the long term.

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%	4.0%	3.0%			96.0%
	Ibov	4.7%	-2.8%	7.2%	15.6%	12.5%	-3.3%	6.4%	3.1%	8.9%	0.0%			63.9%
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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