BOGARI capital

BOGARI VALUE

Investor Letter 8, Quarter 4 2009 – Forecasts From The Year 2000

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

At the close of 2009, Bogari Value's performance was +122.0%, against Ibovespa's +82.7%.

Since inception[1], our total return was +698%, compared to +72% for Ibovespa. During this period, our NAV per share appreciated to BRL 798 from BRL 100.

Annual Performance

Year	Bogari	Bovespa	Outperformance(%)
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(%)
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

We are pleased to announce that according to the publication "Isto é Dinheiro" in its issue # 640, Bogari Value FIA fund was elected the best fund of 2009 in its category.

Among other criteria, the classification was made using the Sharpe Index, which considers both the fund's profitability and its volatility. If a ranking for all equity funds had been made, we could conclude that Bogari Value FIA would have ranked 3rd among all Brazilian stock funds for 2009.

The good performance makes us quite proud, but as always, it increases our concern with regards to the expectations of our clients. We are always looking to explain that high performance, such as those obtained in the past, are difficult to obtain every time. So a good insurance against disappointment is keeping expectations low.

While 2008 was marked by a strong stock market downturn, 2009 saw its strong recovery. Despite the appreciation of 2009, we should point out its magnitude when we evaluate the two years together. We see that the index slightly exceeded its level in December 2007. The Ibovespa had a cumulative increase of only +7.6% over 2008 and 2009. In this same period our vehicle appreciated +77.4%.

Undoubtedly, 2009 was an amazing year. In the first quarter the companies started their operations with a high level of uncertainty and the executives were rarely optimistic. By Q4 we saw a high level of confidence in the domestic market, supported by strong international financial flows and the good prospects of the Brazilian market.

Portfolio Commentary

In 2009 Helbor launched almost BRL 1bn in real estate and sold a little more than that, showing a growth of sales of 133% compared to 2008. The company will probably continue to surprise in 2010.

As a benchmark, PDG Realty, which is currently holding a public offering, is expected to close 2009 with BRL 3bn in sales and launch, or nearly 3x more than Helbor. However, while the latter is worth BRL 700mn PDG Realty is worth almost BRL 7bn, or almost 10x more. We believe that it is not reasonable to discount a company for the quality level of Helbor.

Kroton's new management has been making a number of operational changes in the company. We continue to follow the new management and evaluate the impact of the new measures on the company.

Tempo continues its efforts to improve and integrate its operations. We believe that some accounting adjustments are still necessary that may surprise negatively. Throughout the year, their numbers will be reflecting more adequately the real situation of the company.

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 42% of AUM. Our liquidity level is relatively high, holding a 20% cash-position and being able to liquidate around 67% of our holdings in 2 days. We continue to hold good assets in our portfolio, with great prospects for the next few years.

[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.

Forecasts… From The Last Decade

For us, the most interesting event at the end of the year was the end of the 2000s and the beginning of 2010. As we have a habit of learning from the past, we have been looking for some articles from the years 1999 and 2000 that reflect the expectations of the market for the next 10 years. Luckily, we found some interesting articles in foreign media, unfortunately we could not find local articles.

To contextualize the reader, at the start of the year from 1999 to 2000 the Nasdaq was on its way to reaching its record in the coming months. The Internet bubble was near its heyday supported by the revolution based on network technologies and the development of telecommunications that would occur in the next years.

In fact, over the next 10 years, the Internet has become part of the lives of millions of people. While in 1999 it was estimated that there were 0.2 billion users, by the end of 2009 the estimate was that this number had grown to something like 1.8 billion, or almost 30% of the world's population, a growth of almost 25% per year , While mobile telephony grew from 0.5 billion accesses in 1999 to 4.7 billion in 2009, a growth rate of 25% per year. Finally, the data transmission was even more intense with the use of mass band for sound and video applications.

That said, it is worth reviewing an interesting article published in the New York Times in February 2000[2] titled "10 Stocks for 2010: Buy-and-Hold Picks From Top Investors." In this article, the author asks that "10 very smart, very successful investment professionals" to choose a stock they felt comfortable buying at that date and keeping in their portfolio until January 2010.

Before we delve into the article and its lessons, we would like to make some comments. We are less interested in knowing whether each manager made money or not, and more in knowing if the investment premises were realized and they resulted in the creation of value for the shareholder. The reason for this approach is that, in principle, the stock market investment allows the sale of the asset at any time and that, in some cases, the hypothesis that supported such an investment, may have been confirmed or "unconfirmed" over the period.

Another important point is that some of the managers mentioned in the article did not usually invest for such long periods. Others even held some stock for long periods, but they always had the flexibility to sell in the middle of the way. The option of selling the asset (or the lack thereof) radically changes your selection process.

Nevertheless, the article brings us some interesting information. For example, of the 10 companies chosen by managers, 5 were connected to IT, Telecom or electronics: Oracle, Nokia, JDS Uniphase, Cisco and Flextronics. Of course, many of the other sectors of the economy were spurned due to the "internet craze".

However, the greatest value of the article lies in the understanding of the investment cases presented and their confrontation with actual life. Let's look at two illustrative cases of good companies that continued to perform well in their markets:

Case Study: Oracle

"You want a company with a dominant market position, a company a number of other companies are betting their future on. You want a company with great cash flow and a stable balance sheet in a high growth market. And you want management that can execute."

"They are already emerging as the software company on the Internet," he said, noting Oracle's success in providing databases, applications and business-to-business transaction sites. "And that is going to be a place you want to be for the next 10 years."

"<u>The stock is selling at about 125 times next year's earnings</u>. But the lofty valuation shouldn't be a problem. (…) By traditional measures, the stock is not cheap. But <u>if you are looking at a 10-year hold, the current valuation parameters won't matter</u>. If their earnings can grow significantly, the multiple will be far less in 2010."

The Company

The quality assumptions of the executives, the company and the growth of the market where it is inserted have been fulfilled, at least partially. The company has consistently grown its revenue and cash generation over the years. In 1999[3] Oracle's revenue and profit were U$ 8.8bn and U$ 1.3bn, respectively. In 2009 both increased to U$ 23.3bn and U$ 5.6bn, a growth of 10.2% p.a. and 15.7% p.a., respectively.

Comments

The explosive growth of the market did not imply growth of the same magnitude of the company. It embedded a very high growth expectation that proved to be imprudent. While the Internet market grew by around 25% p.a., the company's revenue grew by 10% p.a. in the period (not all Oracle revenue was connected to the Internet). Scale gains allowed profit to grow faster, around 16% p.a.

Paying any price for growth turned out to be not a good idea. A multiple of 125x profits, implies a growth in profits of almost 25% p.a. so that the stock trades in the historical average of the American market of 15-16x profit over 10 years.

As a matter of curiosity, even with the increase in stocks in 2009 and the growth of the company, the level of its shares has not yet reached that of 1999.

[2] http://www.nytimes.com/2000/02/20/business/business-10-stocks-for-2010-buy-and-hold-picks-from-top-investors.html

[3] For simplicity's sake, we used results for FY 1999 and 2009 ending in March '99 and March '09 respectively.

Case Study: Nokia

"These people have the ability to come out with new products. In Europe, cell phones are almost as ubiquitous as car keys. As the third world develops, that is going to be a huge market."

"The big rise in Nokia's stock price during the last 10 years -- its total return was more than 3,600 percent -- doesn't bother (…). The stock probably won't do better than it did in the 1990's, but it will continue to rise. (…) shares of companies that have done well have a tendency to continue to do well, especially if they are being innovative and inventing new products."

The Company

Nokia was and continues to be the most successful company in the production and sale of mobile handsets, with more than 40% of the market. Its capacity for innovation and creation of new products continues being one of the main assets of the company.

In 1999 the company's revenue and profit were EUR 19.8bn and EUR 2.6bn, respectively. In 2008[4], 9 years later, both increased to EUR 50.7bn and EUR 4bn, a growth of 11% p.a. and 4.9% p.a., respectively.

Comments

As previously reported, the number of mobile phone users grew at rates well above the company's figures, 25% p.a. against 11% p.a. of its revenue. Leading us to reinforce the comment presented in the Oracle case, that a promising market is not enough for the company numbers to grow with the same intensity.

Markets with great potential one day mature, starting to grow less as demand is met. In addition to saturation, industries linked to technology have a very large natural obsolescence. This requires high investments in R&D, continuous development of new products and functionalities, attention to new technologies and new competitors. The level of innovation is so great that today's simpler products are far superior to the best products of years ago.

As in the Oracle case, the trading price of Nokia shares is also below that of 1999.

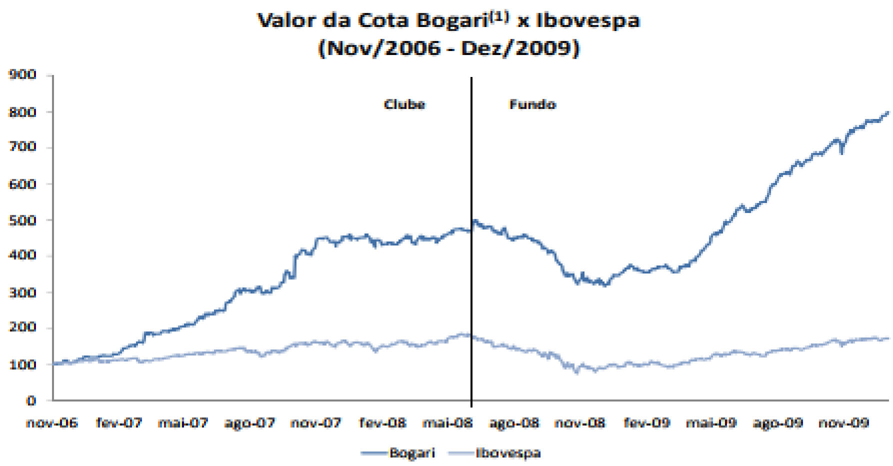
The article clearly shows a period of great euphoria. It is natural that periods with such distortions of the perception of reality are not so common. However, on a smaller scale, it is possible to observe arguments used by managers in various situations of our daily life in the market. The reason we value knowledge of the past is to try to minimize recurring events in the future, even in times of market normality.

Thank you for your trust.

[4] The year of 2008 was used as 2009 was not released due to a sharp drop in profits due to the global economic crisis

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%	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

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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.

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

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