*Report*

# DYNAMO 114

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## *Dispersed Ownership and Control Revisited (I)*

In human history, the number four is commonly associated with completeness and balance. Four are the elements of nature, the cardinal points, the seasons, and the phases of the moon and human life. In our playful analogy, there are also four 'nitrogenous bases' that form the structure of Dynamo's DNA: we are value investors, focused on equities, with a long-term horizon, and a participative attitude towards our investments. The simplicity of the statement hides no little depth in the description and practical experience of each of these components. The first item, for example, unfolds in a countless array of efforts aimed at the almost impregnable formation of competencies for locating the intrinsic value of a company. In Dynamo Report 76, we classified the stages of our analysis into four (look at it again) main groups: Numbers, Company, Management, and Business, which should be investigated, evaluated, connected, and summarized into an investment proposal.

To each constituent element of our morphology, we match a disposition that comprises our substance. Thus, the value investor is associated with diligence, scaled to the amount of care and effort required. The focus on equities refers to humility. It is the recognition that, faced with the complexity of the object, we opt for specialization, for the safeguard of acting in a more circumscribed domain of competence. Long-term horizon requires the no less important quality of patience. Our investor's watch connects with the real-time economies, businesses, corporate environment, and business activity. Unlike those who invest trying to anticipate the expectations of others, we need patience for the maturation of the companies' projects and for the value of these achievements to be reflected in the NAV of our Fund. Finally, our waiting is not passive. Through a participative agenda, we intend to help catalyze perceived value. Here, if assiduous presence is the instrument, the corresponding attribute is integrity. When we interact frequently with the various protagonists (shareholders, board members, executives, employees) who guide strategies and determine the performance of companies, we have just one clear purpose: we seek the best for the company. The implicit premise is that the share price should capture over time the value of this construction. We have no other objective function, no self-interest, not even class interest (shareholder) since, in ESG times, the share price should capture the balance of aspirations of all stakeholders.

This fourth element, which translates into a spectrum of actions and relationships aimed at the prosperity and longevity of the company, is called corporate governance. The interactions seek to format rules and practices that guide decisions and modulate conduct. Hence, it is said that governance is the "operating system" of companies (in the sense of software, cf. Gilson, 2016).[1] Governance has principles, but they are processes; the former are inert, the latter malleable. They vary in time and space because they result from the encounters and divergences of the various agents and institutions inserted in particular contexts.

The term corporate governance appeared in the United States in the mid-1970s and got to Brazil only

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1 *As usual, in order to make the text more fluid, we're keeping citations short. You may find the complete references for the material we've consulted for this and the next Report on our website in the library menu, at www.dynamo.com.br/pt/biblioteca.*

in the second half of the 1990s. At that time, the IBGC (Brazilian Institute of Corporate Governance) was still the IBCA (Brazilian Institute of Board Members). We from Dynamo used to participate practically with no other companion in the General Shareholders' Meetings, except with the Brazilian Corporate Law under our arms; we didn't even suspect that such an intrusion was the vanguard of behavior that would later become not only acceptable but absolutely necessary, receiving broad adherence and also a pompous name.

Since then, much has changed. Just like software, governance regimes systematically demand new versions to cope with the continuous changes in the actors' profiles and the demands of the institutional environment. Our purpose here is precisely this: to update the available literature, as well as our reflections and understandings about the fundamental aspect of ownership structure that shapes and determines governance relations in companies. This is a fundamental theme that has been very present and documented in our Reports. Our last more systematic update was in Dynamo Report 52 (4Q2006): *Dispersed and Concentrated Ownership — A topic Revisited*. Such is the time lag in such a dynamic space that the text of this review has become so long that we have decided to divide it in two. In this Report, we briefly recall the environment of defined control that we faced in Dynamo's first decade. Next, we describe our learning as we came to live with the reality of dispersed ownership in Brazil. We end with a look at the American market, a stronghold of the corporation, in search of clues that may help us locate ourselves in this dimension. In the following Report, we turn our attention to the reality of control, a dominant property regime around the world, which is presented in an updated version and advances even in the American market. We consider the new elements/actors in this scenario and the reasons for a more benign reading of the control and the role of the controller.

Before we begin, two broader notes. The first is on the determinants of corporate governance relations. The conventional approach, which has guided all our discussions so far, deals with the subject in the specific scope of agency problems arising from the interactions that take place within companies. In recent years, however, there has been a growing understanding that governance regimes resonate outside the corporate environment and as such would also be shaped in other dimensions. Changes of control and transfers of corporate domicile reverberate on jobs, investment, R&D activity, spillover effects on local communities, and tax revenues. Thus, other elements of a different nature — more external to the companies — also contribute to the shaping of governance experiences. These include, for example, (i) competition among exchanges to attract new listings and (ii) the nationalistic approach, that is, when countries sponsor regulatory changes to protect industries and jobs that end up benefiting the incumbent control. Regarding competition, for example, shortly after the Alibaba IPO on the NYSE, the Hong Kong and Singapore Exchanges removed the ban on dual shares, under certain conditions. Similarly, the London Stock Exchange (LSE) made changes to the regulation of state-owned enterprises to give a nod to the giant Saudi Aramco. As for regulatory changes with a nationalistic bias, the Florange law, for example, went into effect in 2014, when France instituted a dual voting guarantee for shares held for more than two years, as a reaction to Mittal's closure of the traditional steel plant in the city of the same name, following its acquisition by Arcelor. In other words, corporate law and governance regimes, and hence ownership structures, are shaped not only by the forces of intra- and inter-company disputes but also by other drivers. In these examples, by competition between regulators and countries. Under this expanded view, "*the agency cost lenses that dominate the literature do not sufficiently capture real-world developments and the actual stakes of corporate governance choices around the world*" (Pargendler, 2019).[2]

2 *A classic illustration in our market of how governance infrastructure can eventually be subject to specific designs was Law 9.457 of 1997; the law abolished the tagalong right with the primary objective of increasing the value of control for the government under the National Privatization Program. After the privatization season, the institute was reestablished in 2001, with Law 10.303 reforming the Corporate Law.*

The second consideration, also a more recent novelty in the literature, is to inquire whether how the ownership regime and governance system could have macroeconomic repercussions that go beyond agency-cost/investor-protection issues. Would stability of control slow down the speed of corporate response and thus imply less dynamism for Brazil? Or on the contrary, could concentrated ownership structures, due to their long-term orientation and as a reservoir of reputational capital, assume a unique role of entrepreneurial protagonism and thus leverage economic growth, especially in jurisdictions where the institutional infrastructure is less developed? In other words, here too the discussion of governance expands beyond the relationships between agents within companies. Two distinct examples that illustrate this more open orientation about the role and impacts of governance regimes are (i) the understanding, after the 2008 global crisis, that the financial system should be thought of from a governance scope that considers the externalities of systemic risks and (ii) the hypothesis that in countries like Sweden, the governance regime preserved control and protected national capital, thereby enabling local industry to flourish, which in turn was crucial for the development and stability of a thriving social democracy. In other words, the themes of corporate governance/capital structure became part of the discussion on macroeconomic stability and political regimes — dimensions that had been virtually unexplored until then. Having made the record, let us return to our microcosm of competence.

Historically, the dominant ownership regime in Brazil has always been defined control. In the early days of Dynamo, we faced a feeble capital market, with low legal protection and built by design on a regime of classes of shares that were asymmetrical in terms of powers and rights. The imbalance ended up producing generations of hesitant minority shareholders and immoderate controllers. In the past, we have authored several reports about the flagrant abuse of power, the misappropriation of results, the misuse of mutual loans and related-party transactions, the private benefits of control, and the blatant trampling of the rights of preferred shareholders. In such circumstances, our agenda was, in the first place, to enforce what the law assured us while trying to argue the benefits that a more balanced society would bring to all. In that claustrophobic reality for the minority shareholder, where we had the feeling of fencing with no jacket in the arena of the controller, we soon understood that we had to go beyond by establishing a constructive dialog also with regulators and self-regulators so that they could conceive norms and induce behaviors that were more compatible with the regulatory and corporate vanguard.

At that time, we looked with admiration at the so-called developed markets, where rights were symmetrical, relationships balanced, and dispersion was the dominant ownership regime. The power of control was not in the hands of a single legal entity or individual, nor imprisoned by hermetically sealed shareholder agreements. In theory, it was available to be negotiated in the market and its exercise was subject to the sovereign decision of the shareholders. There was no distinction between majority and minority shareholders, nor differentiation of share classes, like Preferred A (PNA), Preferred B (PNB), and Ordinary (ON). Everything was equal, so equal that the shares were called equities! Nothing closer to a truly representative democracy. Naturally, we nurtured an almost idyllic aspiration for the parnassia of the corporation.[3]

We knew about the disputes between shareholders and executives, which was where the conflicts of agenda and agency problems in those jurisdictions manifested. Yet, from a distance, they seemed to us infinitely more livable than our windowless confinement. Our aspirations were not mere distant ideals but were bolstered by a robust bibliography of serious empirical studies. The writings of La Porta, Lopez-de-Silanes, Shleifer, and Vishny, a branch of literature known as *"Law and Finance,"* guided our understanding at the time. The works clearly linked the development pattern

3 *For the sake of accuracy, almost everything was equal since there was already a portion — albeit not very representative — of companies with two classes of shares. We will deal with this aspect in more depth in the next Report.*

of capital markets to the quality of the legal system. Where there was a good law, with effective enforcement and a vigorous protection system, valuations were higher, liquidity existed, and the market was healthier. In these situations, stocks were widely held. In contrast, where the law was bad, protection weak, and enforcement absent, the market was stunted, multiples timid, and liquidity low — characteristics generally associated with the presence of defined control. In this situation, there was no incentive to break up the control blocks since those that did so would fall to the other side. Unprotected and illiquid they would become. By construction, if the most lagging markets wanted to progress, they should aim at reforming their regulatory-legal systems, where the dispersion of capital would emerge as the main sign of success in the transition. A convergence of capital ownership regimes toward greater decentralization was therefore projected, with the US and British markets as the prime examples. As an echo of this understanding, we said at the time, *"the great advance of the capital market will come when the controllers perceive — freely or compulsorily — that the private benefits of control are less than the earnings generated by the reduction in the cost of capital of their companies. From that moment on, Brazilian companies will move towards democratic capital structures, instead of the oligarchic structures that still prevail in Brazil"* (Dynamo Report 51, 3Q2006).

This was the context of our participatory activism in the 1990s. Over time we began to see a CVM that was more active and sensitive to the problems that led to the atrophy of our market. Through a succession of good normative instructions, our regulatory agency began to frame abuses and close loopholes, seeking to promote greater balance in its remit. Soon came the infantry reinforcements of the other regulators. Previc (Pension Funds) and BNDES (Development Bank) defined governance elements as criteria for resource allocation, guiding investment policies of the foundations, and bank credit concessions. Bovespa, in turn, promoted the 2000 launching of the Novo Mercado (New Market), a fundamental milestone in terms of establishing differentiated listing standards. The following year saw the reform of the Corporation Law. In 2004 we experienced the beginning of an auspicious cycle of initial public offerings, with unprecedented quality and vitality. We now live with the reality of a group of companies listed at Bovespa's highest level of governance — trading at multiples above their peers in developed markets. Freed from the historical discount attributed to distrust of the legal protection regime, good companies began to capture premiums associated with the opportunity for differentiated growth and/or a more benign competitive pattern in Brazil, with its not infrequent presence of dominant oligopolies.

In this environment, the doubts that led to the attachment to control are diluted, and, as a consequence, the situation of capital dispersion has advanced. We then witnessed a raft of companies going public with no defined control. It is true that in many cases the insecurity of the entrepreneurs was contemplated with the presence of a statutory poison pill, euphemistically called 'mechanisms to protect the dispersion of the shareholder base,' some of which are practically irremovable and deserve the moniker of 'entrenchment clause'[4]. We even warned at that time (Dynamo Report 53, 1Q2007) that those protection mechanisms, as they were designed, could become handcuffs for the entrepreneurs themselves. Further down the road, some founders faced difficulties in dismantling these structures when they decided to monetize their holdings.

Still, as such, we witnessed the début of the first corporations. We have even observed glimpses of unsolicited takeover attempts, as in the case of Sadia's bid for Perdigão, which ended up not going through. We dedicated an entire report to the episode (Dynamo Report 51, 3Q2006), such was the stir among investors to see the corporate control market working in practice

4 *In this case, the so-called "entrenchment clauses" oblige the shareholders who have voted in favor of changing or suppressing the "protection mechanism" to make an offer under the same terms. In other words, it is a protection against the modification of the protection clause.*

in Brazil. And so we ended the text with some praise for the attributes of dispersed capital.

*"The situation of dispersed control in the market triggers a series of auspicious developments: companies begin to reside under the diligent surveillance of the market; the levels of demand on business performance rise; the room is opened for genuine entrepreneurial initiative; the informational content of the pricing system increases; and shareholders are allowed the democratic exercise of an essential right. In other words, a certain aroma of updated capitalism is emerging. The result: all agents and the economy as a whole win"* (Dynamo Report 51).

In fact, over time we have come to live closer to the reality of dispersed capital. Other unsolicited offers have emerged, such as Telefonica's bid for GVT, Totvs' bid for Linx, Gafisa's bid for Tecnisa, Eneva's bid for AES Tietê, Energisa's bid for Eletropaulo (this one triggering the 30% poison pill) and, more recently, Mubadala's bid for Burger King. However, our noble aspirations still needed to face the audit of reality. And unfortunately, we have encountered problems and obstacles that we could not see from a distance. Some companies soon realized the difficulty of assembling a minimum quorum for Assembly decisions. Shareholders would need to re-educate themselves to actively exercise their wills and awaken from the lethargy induced by the guaranteed presence of the majority vote. But the worst part, we learned later. Through the breach of the shareholders' passiveness, executives and even board members occupied disproportionate spaces, becoming in practice the actual controllers of the tropicalized corporations. In widely held companies, it is the board that usually submits the names of candidates to be elected by the Assembly. Moreover, when provided for in the bylaws, it is the board of directors itself that decides on the election system. In other words, the current board has wide latitude to appoint its own succession. The election of members from outside this stratified order is in practice a quasi-epic. If the system is a slate system, an alternative slate must be put together, but which is something that is perceived as a destabilizing threat and meets with enormous resistance. If it is a list system, the free inclusion of names can result in a dysfunctional composition; indeed, the aggregation of dispersed candidates hardly forms a board. As an aggravating factor, the list system can trigger a request for election by multiple votes, thus bringing down the entire board, which brings even more uncertainty to the outcome of the process. In other words, without the presence of a coherent block, it becomes very difficult to organize representation with cohesion.

Faced with the obstacles to breaking this well-enmeshed gear, we observe that eventually the system may be deformed to accommodate the complicity of wills that are not necessarily in the best interest of the company. And so, in these particular cases, the CEO/board member appoints names close to them for the composition of 'their' board, assuring them generous advantages. The job is too good to raise disagreements or even questions to the benefactor themself. In turn, directors tend to approve equally exuberant compensation packages for management. In this closed circuit of reciprocal benefits, it is difficult for the shareholder to interfere. There is practically nothing they can do until the next general meeting that elects the board. And even there, one must overcome the inertia of dispersed investors, the status quo of vote advisory firms of foreign institutional investors, and the very internal resistance of interested incumbents.

Overcoming these barriers is a central challenge for a governance agenda in this dispersed capital environment. This is because the appropriate composition of the board is a fundamental attribute of this essentially collegiate body. Unlike the team of officers, where each executive may be appointed to represent the company, the board is a collective body of the corporate administration, whose members only decide when they meet. This means that the isolated opinion of each board member has no deliberative efficacy. The decision-making power lies in the fact that the body can only express its will by resorting to the qualified deliberation of its assembled members, after discussion and voting. Therefore, when electing the board, one should not only consider the personal qualities of its members, such as education, talents, and experience, but also consider interpersonal elements such as integration, complementarity, and diversity. Our experience at Dynamo is that this concern is a determining element for the board's good performance, both as a guardian of the company's values/culture and as a formulator of strategic guidelines. Hence, facing a reality of diffuse elections and a fragmented board composition process, the risks of dysfunctional results with serious repercussions for the company become high.

Whatever the resistance, it is our role to find ways to exercise the fundamental attribute of participative management, under the premise that it is an important tool to create value for companies and, consequently, for our investors. In this way, we are already accumulating a collection of cases and lessons learned in this more recent labyrinth of governance in the ownership regime of dispersed capital. Even so, with the accumulation of experiences in both environments, between the discomfort of control in the past and the more recent disenchantment with the corporation, we need to update our understanding in light of our experiences and with the help of specific literature to synthesize a course of action that further increases the power of our constructive engagement.

Let us first look at the environment of dispersed capital. There is a vast literature that seeks to explain the reasons that led the United States to the dispersed ownership regime. There are several authors and complementary lines of argument about the historical determinants of dispersion in the US market, which we have tried to synthesize in Dynamo Reports 52 and 53 (4Q2006 and 1Q2007). Among these, we highlight elements endogenous to the growth imperatives of companies (A. Chandler); political factors influencing legislative production (M. Roe); the wave of mergers ("crazy combinations") that spread at the beginning of the 20th century (B. Cheffins); trade openness and competition for access to competitive resources (R. Rajan & L. Zingales); executives' strategy to dilute controlling shareholders (M. O'Sullivan); depth of the legal protection regime offering legal security for the dismantling of controlling blocks (La Porta et al.); the presence of self-regulatory mechanisms (Coffee); and, finally, we also mention the tax aspect — the important and little-remembered role of taxes in succession planning decisions in the United States.

And so we try to summarize a long journey in the following paragraph:

*The segregation of share ownership and control over the business played a vital role in enabling large US companies to evolve from their original family business structures. Along the way, capital becomes more widely held and management is outsourced. To counterweight the loss of control, there comes liquidity and the capacity to immediately transfer ownership at a reduced cost. A greater part of US market technology and systems development was aimed at improving share transfer capacity. Up until the nineteen fifties, at least five documents, and a number of formalities were necessary to conclude a sale of a single share6. This universalization of the capacity to transfer shares among owners completely altered the landscape of corporate control structure and was an important factor to produce a wider dispersion of shares. Previously, shareholders were required to take part in the direction of company business as a way of monitoring their investments, which often represented most of their wealth. Today, as an 'exit' option is available in the market, management tasks can be outsourced in every business and immediate liquidity is guaranteed for any diversified portfolio investor. Liquidity converted long-term ownership risk into short-term investor risk. With the loss of the capacity to influence corporate decisions and the exponential liquidity increase, the sale of shares threatened to become the sole alternative for shareholders* (Dynamo Report 53).

The construction of a governance system aims precisely to produce an alternative to the simple sale of shares. The permanent tensions between ownership and control are at the center of governance discussions. By preferring liquidity and diversification, shareholders become hostages of a problem of collective action, end up becoming complacent, and make room for executives to act with greater autonomy. Executives move in, become entrenched, and eventually capture a disproportionately larger share of a poorer quality corporate outcome. The shareholders wake up, become more engaged, try to recover the agenda, and frame the executives. And thus has been the historical alternation of forces in the arm wrestling between the agents. The 60s and 70s in the United States were dubbed 'managerial capitalism,' the period of 'strong executives, weak shareholders,' and marked by the expansion of conglomerates. In response, there followed a wave of hostile takeovers in the 1980s, when shareholders tried to regain the handle by 'disciplining' management via capital markets. From then on, executives took care to protect themselves by developing an arsenal of anti-takeover provisions. Shareholders reacted again and increased the frequency of activist interventions. As a reflex, executives started to preach the need for a more pluralist vision in the corporation, including the interests of all stakeholders and trying to dilute the uncomfortable monopoly of shareholder vigilance. Not coincidentally, the Business Roundtable (a well-known representative of executive interests) supports with such intensity a new version of stakeholderism that accompanies a spectrum of the recent narratives of the ESG phenomenon.

To preserve some degree of power over their holdings and monitoring over executives, shareholders in the United States have focused the governance agenda on two main devices: (i) ensuring that the market for corporate control can function effectively and without hindrances; (ii) instituting the figure of the independent director to prevent executives' capturing of the company's main strategic decision-making body. Today it is already known that these two techniques present problems. The takeover is an artifice with limitations: it requires a reasonable premium, which raises the transaction cost, thus, making it viable only for large companies. Moreover, takeovers are more suitable for certain targets, such as inefficient conglomerates, and less suitable for others, such as niche businesses, where it is more difficult to find qualified expertise available to the offeror. The institution of the independent director also faces difficulties and suffers from a congenital problem of incentives: the intention of remunerating the independent director in such a way as to ensure the maximum dedication desired, at most exclusive, by definition clashes with the concept of independence.

A central concern arising from the dispersion of capital is the dissolution of owner mentality. In our experience here at Dynamo, this is an attribute that we consider fundamental for the success and longevity of companies. Owner mentality is having skin in the game. It is the attitude of someone who is all in, never gives up, fights for pennies, goes the last mile, thinks first about the company's prosperity and not exclusively about their career, takes risks instead of seeking comfort/protection, and prefers to explore projects rather than simply accomplishing tasks. By design, it is more difficult for professional directors to overcome shareholders in establishing this kind of disposition and commitment. Not coincidentally, in the analytical scheme of agency theory, like executives, directors are also considered agents, not principals.

When a relevant part of personal/family wealth or investment portfolio is involved, owner mentality emerges more naturally. However, it is not located

*Dynamo Cougar x Ibovespa*
*Performance up to August 2022 (in R$)*

| Period | Dynamo Cougar* | Ibovespa |
|---|---|---|
| 60 months | 63.2% | 54.6% |
| 36 months | 8.4% | 8.3% |
| 24 months | -16.0% | 10.2% |
| 12 months | -30.1% | -7.8% |
| Year to date | -13.3% | 4.5% |

*NAV/Share on August 31* = **R$ 1,202.958558800**

*(*) Indices are presented as economic reference only, and not as a benchmark.*

## DYNAMO COUGAR x IBOVESPA
*(Performance – Percentage Change in US$ dollars)*

| Period | DYNAMO COUGAR* Year | DYNAMO COUGAR* Since Sep 1, 1993 | IBOVESPA** Year | IBOVESPA** Since Sep 1, 1993 |
|---|---|---|---|---|
| 1993 | 38.8% | 38.8% | 7.7% | 7.7% |
| 1994 | 245.6% | 379.5% | 62.6% | 75.1% |
| 1995 | -3.6% | 362.2% | -14.0% | 50.5% |
| 1996 | 53.6% | 609.8% | 53.2% | 130.6% |
| 1997 | -6.2% | 565.5% | 34.7% | 210.6% |
| 1998 | -19.1% | 438.1% | -38.5% | 91.0% |
| 1999 | 104.6% | 1,001.2% | 70.2% | 224.9% |
| 2000 | 3.0% | 1,034.5% | -18.3% | 165.4% |
| 2001 | -6.4% | 962.4% | -25.0% | 99.0% |
| 2002 | -7.9% | 878.9% | -45.5% | 8.5% |
| 2003 | 93.9% | 1,798.5% | 141.3% | 161.8% |
| 2004 | 64.4% | 3,020.2% | 28.2% | 235.7% |
| 2005 | 41.2% | 4,305.5% | 44.8% | 386.1% |
| 2006 | 49.8% | 6,498.3% | 45.5% | 607.5% |
| 2007 | 59.7% | 10,436.6% | 73.4% | 1,126.8% |
| 2008 | -47.1% | 5,470.1% | -55.4% | 446.5% |
| 2009 | 143.7% | 13,472.6% | 145.2% | 1,239.9% |
| 2010 | 28.1% | 17,282.0% | 5.6% | 1,331.8% |
| 2011 | -4.4% | 16,514.5% | -27.3% | 929.1% |
| 2012 | 14.0% | 18,844.6% | -1.4% | 914.5% |
| 2013 | -7.3% | 17,456.8% | -26.3% | 647.9% |
| 2014 | -6.0% | 16,401.5% | -14.4% | 540.4% |
| 2015 | -23.3% | 12,560.8% | -41.0% | 277.6% |
| 2016 | 42.4% | 17,926.4% | 66.5% | 528.6% |
| 2017 | 25.8% | 22,574.0% | 25.0% | 685.6% |
| 2018 | -8.9% | 20,567.8% | -1.8% | 671.5% |
| 2019 | 53.2% | 31,570.4% | 26.5% | 875.9% |
| 2020 | -2.2% | 30,886.1% | -20.2% | 679.0% |
| 2021 | -23.0% | 23,762.3% | -18.0% | 538.9% |

| 2022 | DYNAMO COUGAR* Month | DYNAMO COUGAR* Year | IBOVESPA** Month | IBOVESPA** Year |
|---|---|---|---|---|
| JAN | 6.0% | 6.0% | 11.4% | 11.4% |
| FEB | 2.9% | 9.0% | 5.2% | 17.2% |
| MAR | 14.2% | 24.5% | 15.1% | 34.8% |
| APR | -16.9% | 3.4% | -13.4% | 16.7% |
| MAY | 2.1% | 5.6% | 7.4% | 25.4% |
| JUN | -19.9% | -15.4% | -20.1% | 0.2% |
| JUL | 6.5% | -10.0% | 5.7% | 5.9% |
| AUG | 3.7% | -6.6% | 6.4% | 12.6% |

AverageNetAssetValueforDynamoCougar (Last12months): R$6,185.9millions

*(*) The Dynamo Cougar Fund figures are audited by KPMG Auditors and returns net of all costs and fees, except for Adjustment of Performance Fee, if due. Dynamo Cougar is destinated for qualified investors, defined accordingly Brazilian laws. The Fund is currently closed for new investments. (**) Ibovespa closing.*

or gravitated around a predetermined percentage of participation. In some cases, even with a reduced share of the capital, shareholders with a good reputation can attract support from others and become reference shareholders. This is what we seek to find in corporations.

In short, ownership dispersion unequivocally brought the desired benefits of liquidity and diversification and offered a valuable alternative to the arbitrariness of poorly exercised control. On the other hand, it has also incurred costs and trade-offs. Some of them are recognized here: (i) the gears for exercising good governance are not as smooth as supposed; (ii) the mechanisms of the market — takeovers and independent directors — designed to monitor executives show limited reach; (iii) there is a risk of leaving the fundamental ingredient of owner mentality by the wayside.

Respecting the self-imposed limit of time to be subtracted from our readers, we interrupt this first part here. In the next Report, we will resume the text dealing with the regime of ownership concentration (control).

*Rio de Janeiro, September 30th, 2022.*

To find more information about Dynamo and our funds, or if you wish to compare the performance of Dynamo Cougar to other indices in different time periods, please visit our website:

**www.dynamo.com.br**



DYNAMO

**DYNAMO ADMINISTRAÇÃO DE RECURSOS LTDA.**
Av. Ataulfo de Paiva, 1235 / 6° andar. Leblon. 22440-034. Rio. RJ. Brazil. Phone: (55 21) 2512-9394. Fax: (55 21) 2512-5720