Report
DYNAMO 115
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Dispersed Ownership and Control Revisited (II)

In the previous Report, we recalled our bumpy experience as minority shareholders in a regime of concentrated ownership and an environment of inconsistent application of the law that characterized the early years of Dynamo's existence. Next, we described our learning as we came to live with the reality of widely-held shareholdings in Brazil. We finalized by critically analyzing the governance "solutions" that the American market found in order to face the unintended consequences that the benefits of dispersed ownership provided.

Now, the idea is that we return to the reality of capital concentration, which presents itself in an updated version and advances even in foreign markets. We consider the new elements/actors in this scenario and the reasons for a more benign reading of control and the role of the controller. At the end, we summarize the main reflections of the two Reports, outline some inferences, and conclude by locating Dynamo in this context.

First of all, a surprising observation. We recall that the expectation in the 1990s was that with the reform of legal protection regimes, the less developed countries would finally converge to the benchmark of the most efficient markets, where widely-held shareholdings prevailed. This was what the literature predicted and what we at Dynamo actually believed would happen. Twenty-five years have passed, and what do we see? That dispersion has not necessarily advanced around the world. Instead, the regime of concentrated ownership remains predominant, with control exercised by a diverse spectrum of constituents: families, foundations, insurers, banks, governments, institutional investors, and shareholders agreements. In fact, the trend points in the opposite direction, toward greater concentration of capital, including in the US market. Two main phenomena contribute to this statistic: (i) the increased use of dual-class structures, which in the United States jumped from 1% of new offerings in 2005 to 20% in 2017 (Pargendler, 2019); and (ii) the extraordinary growth of large institutional investors. We will return to them later.

How to explain the permanence, and in some cases even the advance, of concentrated capital structures around the world? Three main lines of response are commonly presented. The first line consists of the conventional interpretation that majority shareholders seek control of companies in order to exercise their position of dominance and extract private benefits. The attachment to control is based here on a purely opportunistic view, centered on private benefit as the driving principle. Since private benefits and excessive control premiums will be present where the legal system is of low quality and the protection regime is deficient, this perspective produces two corollaries that contribute to a negative image associated with the controller: (i) it deposits the participants of control blocks in a common grave, treating them all as contumacious opportunists; and (ii) it determines a direct and practically exclusive connection between the controller and bad jurisdictions.

The second line emphasizes the issue of monitoring. Rather than relying on "external" solutions

– corporate control market and independent directors, as we saw in the previous Report – developed in the environment of dispersed ownership, in order to solve agency problems within the corporation, the controller would play this important role in building governance. Having a substantial portion, if not the totality of their economic and reputational assets at stake, with direct access to information and the capacity to intervene in a timely manner, the controllers would be the most appropriate to effectively perform the task of monitoring executives. On the other hand, since it is a costly activity that requires dedication and imposes liquidity and non-diversification limitations, under this view the controller would only accept the burden if they were assured a disproportionate share of the results. Likewise, recognizing that the zeal of the "owner of the business" would be a valuable service for the company, some compensation could be contemplated by the shareholders in order to induce those willing to perform such a task. And thus, speculate the proponents of this alternative, the other shareholders would be willing to allow the capture of this disproportionate share of the company's results, justifying the private benefit of control. Some sympathizers of this line go further, suggesting that "compensation" should be subject to contract and that corporate law should tolerate an "optimal" level of private benefit appropriation by the controller (cf. Gilson & Schwartz, 2013).[1]

Yet, we know of jurisdictions, for example the Scandinavian countries, where ownership concentration prevails, and private benefits of control are practically non-existent. How can we explain the presence of the dedicated controller receiving no apparent compensation? The answer lies in the existence of the non-pecuniary private benefits of control: reputation, power, political access, influence, affluence, and social prestige of the families/individuals leveraged by the legal entity. Naturally, these benefits will be perceived as greater when the economies of the countries are relatively smaller. Hence, families in countries like Sweden, Mexico, and Chile, for example, tend to perceive more strongly the non-pecuniary benefits of control.

But then how can we justify the advance of the figure of the controller in the United States? A huge economy that dilutes any ability of an individual or family alone to capture relevant private reputational leverage. There, the good law does not allow pecuniary benefits of control, and non-pecuniary benefits would be much more limited.

The answer is reached by the third line of argument, where entrepreneurs value control as a vehicle to allow them to pursue their "idiosyncratic vision" vis-à-vis the company and the business, under the assumption that the business, when implemented, will be able to produce above-market returns. Since the appropriation of private benefits is not part of the objective/function of these controllers, since they do not require compensation for the task of monitoring the executives nor for maintaining a relevant block of ownership, investors do not need to offer them any consideration. Here, the entrepreneurs value control, even when they genuinely want to share the company's cash flow pro rata with all other minority shareholders. This logic is much more in line with the corporate law doctrine that does not tolerate the practice of private benefit for any shareholder. The controller would be willing to incur the monitoring costs because they have a different business vision than the others and want to make it prevail in order to achieve superior returns. The attachment to control rests not on an intention to extract private benefits, but on a differentiated equation that contrasts the peculiar perspective of

1 *We do not believe that the best way to provide incentives to the controller shareholder is to establish an "officially acceptable" level of private benefit. The design violates the principles of isonomy and balance that underlie the good precepts of corporate democracy. Besides being conceptually controversial, in practice the suggestion may become difficult to implement and extremely dangerous, particularly where the legal protection regime is not yet well established.*

the controller vis-à-vis an emphasis by the other shareholders on seeking protection from the agency costs inherent in corporate imbalances (cf. Goshem & Hamdani, 2016).

Hence the phenomenon of the significant increase in supervoting stocks over the last 20 years in the United States, a jurisdiction of high legal quality that does not admit differentiated appropriation of corporate results. In fact, especially in the environment of technology companies where the idiosyncratic vision of the founder makes all the difference, investors have accepted to participate in IPOs with dual-class shares, convinced that it would be necessary to ensure the entrepreneur the power of control and thus allow them to validate their convictions without further interference. This is an expression of a vote of confidence in the "owner" in their leadership capacity and in the strategic orientation of the business – besides reflecting an understanding that it would be the best way to arbitrate agency problems involving executives with their own agenda, and financial investors with a short-term bias. Not coincidentally, investors' "permissive" stance towards the one-share-one-vote mantra gained traction with Google's IPO in 2004, when founders Larry Page and Sergei Brin, noticing market resistance, wrote an "owner's manual" explaining the motivations that led them to use the unconventional structure at the time. From then on, countless technology companies have adopted the device, which is also present in traditional companies such as Berkshire Hathaway, Comcast, Dell, Ford, Hyatt, Nike, Ralph Loren, and Visa, among others.

In parallel with the convincing narrative of preserving "entrepreneurial vision," the proliferation of qualified voting raises doubts among those most concerned about the loss of symmetry between ownership and control. Perhaps the skepticism has historical footings, as supervoting stocks are not exactly new to the American market. They appeared at the end of the 19th century and returned with great vigor in two previous cycles, in the 1920s and 1980s, moments marked by high liquidity and exceptional market optimism – followed by equally intense turbulence. In other words, they appear occasionally, cyclically and opportunistically. In fact, when we group (i) the coherent argument of idiosyncratic corporate vision with the commercial enthusiasm/pressure that marks the IPO process and (ii) the evidence that American investors simply have not considered the possibility of "bad control," the conditions/incentives that explain the apparent indifference with which investors have been treating this issue are present.

Even so, the criticism of dual-class stocks falls particularly on certain excessively leveraged structures that allow for significant sale of shares while the controlling stake remains below 5%. In this case, we would hardly have the presence of the disciplining forces of the corporate control market, nor the incentives of the radical alignment of interests driven by concentrated and non-diversified exposure. The apprehensions are supported by empirical studies that find that the agency costs associated with dual-class listings increase with listing time, suggesting that their net economic benefits tend to fall as the company becomes more mature (Kim & Michaely, 2019). Hence the compounded problem of "enduring" super-voting shares, which perpetuate a reality of power, even when the perceived effects of the founders' differentiated leadership skills would already be naturally more diluted. As a governance response, "sunset clauses" emerge, imposing forced interruptions on differentiated rights, either through term limits or when subject to certain conditions.[2]

2 *Sunset clauses are symmetrical reflections of what we had when the "tropicalized" poison pills, mentioned in the previous Report, appeared in our market. Instead of the shielding provided by the entrenchment clauses, we noted at the time that such "mechanisms to protect the shareholder base" should at least be accompanied by "biodegradable" provisions: from time to time, their renewal should be submitted to a vote of the shareholders gathered in a general meeting.*

The dual-class shares phenomenon expresses a movement toward greater concentration of control in the US market. However, in the last two decades we have also witnessed a trend toward concentration of ownership. And here the explanation is different: concentrated ownership refers to the unprecedented advance of institutional investors, who have jumped from 6% of total share ownership in the US market in 1950 to 65% in 2017. There are several reasons for such an expansion, such as (i) changes in the regulation of retirement savings, which have provided a significant growth in the total amount and allowed their transfer from bank accounts to the stock market (with the migration from defined benefit plans to defined contribution); (ii) various innovations in equity investment products; (iii) and the conviction of the benefits of diversification with the possibility of implementing low-cost strategies; among others. All of this has allowed an outstanding expansion of index funds, which today account for almost 50% of the market. The winning modality, the exchange-traded fund or ETF, provides enormous economies of scale for managers and abundant liquidity for investors. With this, the market has become concentrated in the hands of three giants: Blackrock, Vanguard, and State Street, which together hold, on average, about 20% of the capital of US companies. Because many of the small shareholders do not show up to vote, the participation of the three giants in the general meetings becomes even more significant.

Unlike super-voting, where the concentration of control stems from an intentional strategy of the entrepreneur, in the phenomenon of index funds the possibility of control emerges as an unintended consequence. The discussion about the exercise of this power by investment firms is the order of the day. There are those who see enormous risk in this unusual concentration in the hands of so few and suggest regulatory actions such as setting ceilings, not only on voting but also on participation; or anti-competitive measures, such as limiting investment in only one company per business segment (Coates, 2018). Others interpret it the opposite way. They believe that management firms have incentives to behave with excessive complacence about executive proposals, which would subtract power from the monitoring function and with it the ability to exercise governance for the benefit of investors (Bebchuk & Hirst, 2019). Along these lines, some argue that the emergence of this new intermediary determines a double agency problem: not only between shareholders and executives, but also between beneficial owners and intermediary institutions, thereby increasing the entropy of the ownership structure of what has been called "agency capitalism" (Gilson & Gordon, 2013).

Adding another layer of complication, also participating in the plot are proxy advisory services such as Institutional Shareholder Services (ISS) and Glass Lewis (GL), retained by index funds to guide them in meeting decisions. These are independent instances that weigh the arguments of the various parties involved and recommend voting guidelines, which are invariably accepted without any reservations by the contracting institutional investors. This is a radical outsourcing of the voting decision, which in practice elevates consulting firms to a fundamental instance of decision-making power in this new institutional arrangement. On the other hand, these advisory firms are known to prefer a parameterized approach that reduces the flexibility of shareholder participation in shareholders' meetings and prevents them from capturing in the desired depth the nuances in some matters; this may raise questions about the effective scope of these services.

The trend toward concentration of ownership in the hands of passive investors has raised concerns about a perceived silence on the exercise of the fundamental role of the long-term owner-shareholder. Hence the growing emphasis in some jurisdictions on fostering greater "stewardship" or "sustainable engagement." It turns out that the index fund industry faces structural problems of a lack of incentives. The task of engagement is costly and uncertain; fees that remunerate this asset class are tight; and vehicles cannot leverage the results of governance initiatives by increasing exposure (when positive) or opting to sell (when negative), because there is no room for intentional portfolio maneuvering. Not to mention the potential conflict of interest, since most of the resources under management in these index funds come from defined contribution 401(k) plans, and it is the company executives who decide which menu of managers/service providers to offer to participants. Hence the convenience of outsourcing decisions to intermediary bodies and the merely protocol action of these managers in governance matters, thus avoiding protagonism – especially in more sensitive issues such as executive compensation and appointment of directors.

It could be expected that the pendulum of corporate governance in the US market would swing in the direction determined by investment companies. Such significant stakes (if the inertia of passivity is overcome) represent an unprecedented potential shortcut to address the challenge of collective action that the dispersion of capital has brought. But the slope of incentives is steep, and a change in strategy can trigger retaliation that compromises the business model and the competitive advantage of the incumbent giants. This is why activist investors have been occupying this vacuum and focusing their persuasion efforts on these large firms to ensure that they have enough support to carry out their transformative agendas. The power of activists comes not from the size of their holdings, but from their ability to present convincing arguments/plans to "rationally reticent" institutional investors and thus try to coordinate collective action in the desired direction.

The main governance setback that arises with the separation of control from ownership consists in the fragmentation of voting and its loss of power as an inducer of change. It turns out that the reconcentration of ownership, in this passive version of indexed fund managers, by itself is not able to restore the problem due to the absence of adequate incentives. Activist investors then appear in the role of "governance intermediaries" as an endogenous response, filling this institutional vacuum in order to restore the monitoring function of executives. In fact, there has been an increase in activism around the world in the last decade, with different characteristics than in the past. The initiatives have been predominantly more collaborative, more protracted, and multiple times more frequent than hostile bids (cf. Franks, 2020). In this sense, corporate activism has played a key role in replacing the corporate control market as a mechanism for correcting management shortcomings and dysfunctionalities.

In short, the US market has experienced a trend towards greater concentration in the last two decades. Concentration of control, through the advance of dual-class shares; concentration of ownership, via the significant growth of institutional investors, especially index funds. The former express a liberality of the shareholder base, recognizing that differentiated founders, diluted by necessity in the successful growth path of their business projects, deserve the endorsement to make their peculiar visions of the future prevail. As a counterpoint, the caveat that endorsement can become a very costly problem over time, especially in very asymmetric configurations. The concentration of ownership in the hands of passive intermediaries lacking adequate incentives to perform the work of active participation opens up an additional dimension of the problem of agency in relationships, which may translate into a loss of power in the monitoring of executives and consequently in a risk of worsening the quality of returns for investors, the ultimate beneficiaries.

As the concentration of ownership progresses, it is natural that eyes turn to those jurisdictions considered to be good references for a regime with a controller. Denmark, Finland, Norway, and Sweden boast healthy capital markets, with a fair number of quality and well-priced companies, where a more concentrated capital structure prevails. Although each country has its own specificities, all four retain common elements of what is called the Nordic model of governance: a system that empowers the majority blocks to exercise effective control, with owner responsibility and long-term vision, while assuring minority shareholders an arrangement of protections and representation.

The Nordic model is based on the principle that the command of companies lies with the shareholders, to whom the board and management, acting as agents, are accountable. The guidelines of this structure are twofold: (i) the authority of the general meeting as the main decision-making body and responsible for the election of the board; (ii) a clear separation of duties and responsibilities between the board (responsible for monitoring and strategic definitions) and management (responsible exclusively for executive tasks). At the same time, a set of statutory provisions ensures adequate protection to minority shareholders and practically prevents the asymmetric appropriation of results. In fact, control premiums, private benefits, and corporate scandals hardly frequent these jurisdictions (cf. Lekvall, 2014). One of the governance bodies provided for in the Swedish code, for example, is the nomination committee, whose main responsibility is to recommend to the general meeting candidates for the board of directors as well as the framework for their remuneration. The committee, consisting of the major shareholders or their representatives, has a propositional function, since the decision-making authority lies exclusively with the shareholders' meeting.[3]

At the same time, the increase in ownership concentration among institutional investors has also reached these geographies, bringing challenges to the hitherto pacified balance between controlling families and minorities. And it coincides with the historical phenomenon of "generational gravity": the tendency for family holdings to naturally fall apart as generations succeed one another and interests in control decay. How should the emergence of a third force affect governance relations in these jurisdictions? Should we see a wave of activism as in other geographies? What kind of (re)compositions are we likely to see? These are heated questions on the agenda for us to follow at these high latitudes. The interest is justified since these are dilemmas similar to those we observe in our market, where defined control structures and family ownership (still?) predominate.

In fact, we have observed some companies here experiencing precisely this movement of transition, i.e., when founders and their families leave the executive board and join the board of directors. The reluctance of moving forward in the transition manifests itself in the emergence of hybrid figures such as the Co-CEO or the Executive-Chairman, an organizational structure imported from successful cases such as Amazon, but which may, if not well conducted, hinder rather than help, generating ambiguity in leadership and entropy in management. An additional problem with the confusion of roles is that it is transferred to the remuneration proposals of the board, where directors linked to control believe they deserve superior treatment and postulate executive-level remuneration.

In these cases, we have tried to remember that the board is a collective management body, whose members do not decide individually, but only when assembled as an *unum corpus*. Its deliberations are manifestations of a collegiate will, where the decision-making unity is an indispensable requirement for its own effectiveness. Therefore, compensation within the board should be as homogeneous as possible. Excessive asymmetry of compensation among directors affects the expected unity of this collegiate

3 *In theory, this is an arrangement that could obviate the problems we described in the last Report, when we reviewed the obstacles we faced in organizing a cohesive board election process in a dispersed capital regime.*

body, whose members represent all the company's shareholders.

Traditionally, the figure of the controller has been associated with jurisdictions with low legal protection; indeed, such jurisdictions tend to characterize fragile capital markets. The link is understandable since where the law, or the application of the law, is poor, expropriation and abuse of control usually proliferate. Moreover, because the perceived value asymmetry of the participations is substantive, there is no incentive to break up the controlling blocks. Markets remain atrophied, illiquid, and with little entrepreneurial dynamism. On the other hand, when the law is good and the space for private gains reduced, the blocks dissolve and the arrangement without control (dispersion) emerges as evidence of corporate progress.

It turns out that markets in distinct regions such as Latin America and Scandinavia, for example, which share the same dominance of the defined control structure, present completely different dynamics. However, the mere presence of the controller alone does not explain the performance gap. Along these lines, what makes the difference is actually the possibility and magnitude of non-contracted extraction of private benefits. A classic study (Dyck & Zingales, 2002) that estimated control premiums around the world as proxies for the presence of private benefits documented a wide range of results across these geographies: around 30% on average in Latin American countries and less than 5% on average in Nordic countries. In this sense, although ownership regimes point to the contrary, Scandinavia would be closer to the United States than to Latin America.

In fact, history has shown that the controller transits well between different legal regimes. It can also be found in a pacified version in healthy jurisdictions, free of opportunistic motivations and devoid of sordid tools. And so, one must qualify the relationships: where shares are widely held, there will be good law. But where there is control, there can be good law (so-called efficient controller) or weak law (inefficient control). Thus, the more recent movement to update the figure of the controller (who has begun to receive more benign treatment in the specific literature) is justified: "*Controlling shareholders, long no more than shadowy characters in the background of the corporate governance debate, now figure prominently*" (Gilson & Schwartz, 2014).

The presence of a controller in a regime where the law is good sets up a potentially interesting arrangement because it ensures intense and highly interested executive monitoring, thereby avoiding at the outset the traps of control/ownership separation inherent in the dispersed capital regime. If the controller is "efficient" (competent, dedicated, and fair – in the manner of the "enlightened despot"); if the controller has moral soundness, understanding, and genuine respect for the contribution of all shareholders in the formation of corporate capital, the corporation as a whole may enjoy a far more cost-effective solution to the agency problem.

With these reflections, past skepticism toward the defined control regime has been questioned. There are suspicions that "*from this perspective, a*

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

Period	Dynamo Cougar	Ibovespa*
60 months	62.5%	48.1%
36 months	10.8%	5.1%
24 months	-10.8%	16.3%
12 months	-22.5%	-0.9%
Year (2022)	-10.3%	5.0%
Month (September)	3.5%	0.5%

NAV/Share on September 30 = **R$ 1,244.430388100**

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

controlling shareholder may better police the management of public corporations than the standard panoply of market-oriented techniques employed when shareholdings are widely-held (...) Rather than being the result of functionally bad law, a controlling shareholder system is in this view an alternative to the frictions associated with ameliorating the separation of management and control that inevitably arises from widely-held shareholding" (Gilson, 2005).[4]

Summarizing, the elements contributing to the "rescue" of the image of the controller are:

(i) The realization that concentrated capital structures also frequent jurisdictions where the law is good and the markets healthy;
(ii) The phenomenon of the concentration of power in the American market through dual-class shares, whose explanation has nothing to do with the conventional motivations of controller expropriation and opportunism;
(iii) The frustration with the performance of external control devices developed to deal with agency issues in dispersed capital environments;
(iv) The recognition of the colossal effort required for a block of minority shareholders to overcome collective action problems and organize a cohesive representation of the company's interests;
(v) The perception that the controller has sufficient conditions and incentives to effectively exercise executive monitoring and to pursue a long-term vision for the company;

Control and ownership regimes determine the profile of incentives and the content of the relationships that shape the governance systems of companies. For the long-term investor, understanding and training in these disciplines are as important as understanding the business models and competitive dynamics of companies; hence our interest in the subject, always present in our internal discussions and reflected in the frequency of references in our Reports.

The obsession with the "convergence" of regimes in the past has led to the exercise – which has proven rash – of pinpointing a "winner" in the arena of choices between widely-held shareholding and control. In the last two decades, while we were nodding here in Brazil to the novelty of the first corporations, the United States has moved toward greater concentration of voting and ownership. We started to live with "their" dilemmas – entrenched executives (and why not say board members) – and they with "ours" (control/ownership asymmetries). In this case, rather than aligning, the trajectories have intersected. The prevalence of concentration around the world has prompted a sharper distinction between good and bad control, a cleavage that makes room for the rescue in the literature of the figure of the controller, one historically associated with problematic regimes. In fact, in our journey here at Dynamo in these almost thirty years, we have faced the attrition of bad control, but we have also enjoyed the virtues of good control.

The advance of index funds around the world instigates the need for a more effective role for active investors. The awakening of these participatory desires has manifested itself in the renewed interest in general meetings, a legitimate channel for the confrontation of ideas within society. In parallel, at a time when the US market is flirting with greater concentration and the figure of the controller is undergoing an *aggiornamento*, regimes with defined control considered healthy are gaining projection. And so, governance models, such as the Nordic countries and our own here in Brazil, where corporate law values the shareholders' meeting as the main forum for deliberation and the central instance of governance, arouse interest and seem better suited for this reality.

4 *It may seem strange, in a proposed literature update, for a quote dating from 2005. It turns out that Ronald J. Gilson is known for his visionary provocations. This text proved to be particularly pioneering, inaugurating propositions and questionings that were only developed years later. Indeed, we ourselves, when we engaged in our last review of the topic in 2006, perhaps enchanted by the then recent winds of widely-held shareholding, were unable to recognize the early merit of this article.*

DYNAMO COUGAR x IBOVESPA
(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%
SEP	-0.9%	-7.4%	-3.8%	-8.4%

Average Net Asset Value for Dynamo Cougar
(Last 12 months): **R$ 6,088.1 millions**

(*) 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.

In this environment, it is expected that active institutional investors will play an even more relevant role. Those who have accumulated experience in attending shareholders' meetings, a history of frequent collaborative interaction with companies, a reputation and network with other shareholders, and a mastery of regulatory details and specific knowledge to move between the various regimes – bad control, good control, and widely held shareholding – will most likely be in a position to contribute effectively for the benefit of society as a whole. Moreover, experience and preparation must come with the fundamental attribute of integrity. This is what provides access to open dialogue with the companies and ensures the credibility needed to move among the various stakeholders. At the end of the day, by turning the not trivial governance gears in the right direction, one expects the result to be an effective creation of value for all shareholders.

Active approach is one of the pillars of our DNA at Dynamo. It is the conduit through which we expand the power of our fundamental analysis work and the reach of our prerogative as a long-term investor. It is the fundamental dimension that transports us from the screen of financial terminals and spreadsheets to the map room of corporate strategies. It is the ability that converts financial securities into equity participations; that promotes us, as the companies in which we invest are well aware, from investor to shareholder.

Rio de Janeiro, October 10th, 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

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