

Report *Dynamo* 42

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Stock Option Plans - II (final)

In our last Report, we described the main features of stock option plans and examined the peculiarities of this type of compensation in our capital market. We observed that market based compensation mechanisms are also opportune in Brazil given the potential for misalignment of interests that surround a corporate environment with defined control and preferred non-voting shares. On the other hand, we also noticed the absence in Brazil of the preconditions that enabled the well-known excesses in compensation packages granted to US managers, chiefly because here, ultimately, it is the controlling shareholder that, through the Board of Directors, decides on employee compensation.

Now, we must change latitudes and examine the reasons why stock option plans acquired less than ideal formats and proportions by seeking to understand the features and problems intrinsic to this type of compensation. At this time, the path becomes bleaker and the reader will note that we were unable to circumvent the inherent obstacles of the subject, even though we decided to transfer the more obscure results to footnote status. The deeper the complexity, the tougher the research job becomes. For the more inquiring, the complete references on the studies utilized can be found in our website in the "Library" menu.

We saw that stock options grants is a device where shareholders transfer a portion of the company's eventual increase in market value to plan beneficiaries to reward their efforts. Thus, it is a mechanism whereby company shareholders are financing themselves through their execu-

tives/staff. If the latter are successful, shareholders will release a portion of their equity value via a future dilution. It is evident that such mechanism will only make sense for shareholders if their diluted ownership after options exercises has an economic value greater than their initial position. This seems to have been the case during most of the bullish market of the nineties. At the close of the decade, the situation was inverted for shareholders as the value of their stocks plunged while, at the time, execu-

tives exercised their options, sold their shares in the market and pocketed significant gains for themselves. Since then, the effectiveness of stock option plans in reaching the goals of aligning interests and linking compensation to performance has been doubted. There is a general suspicion that this type of financing involved some exaggerated contracting. In other words, executives and employees were paid for more work than they actually delivered. What could be the reasons be-

Our Performance

Shares in Dynamo Cougar increased by 1.6% during this second quarter, while Ibovespa and IBX were down 5.2% and 4.7%, respectively. For the year through June, Dynamo Cougar is up 7.1%, the Ibovespa is down 5.9% and the IBX, is down 3,5%. The fund's annual compound return since its inception in September 1993 was 31.2%^{pa} in US dollars and 30.2%^{pa}, measured against the IGP-M. Over the same period, Ibovespa increased by 8.1%^{pa} in US dollars and 7.3%^{pa} in IGP-M. During the quarter, the fund's portfolio reported no significant alterations. We have maintained our main investments, and made a few minor adjustments.

The quarter ended better than it began. External mood became calmer as the FED increased interest rates by only 0.25%, signaling a gradualism on monetary policy, which the market awaited and desired. The internal growth scenario seems guaranteed for this year, as even

the statistical carry-over effect should help. Prospects for the remainder of the year are reasonable. However, the fundamentals for continued growth from mid-2005 on remain absent.

The good news for the capital markets came from three IPOs that took place in an interval of only one month: Natura, Gol, and ALL. Jointly, these three companies obtained over R\$ 2 billion at multiples well above the domestic market average. We acquired shares of Natura and ALL both of which continue trading above their initial offer prices. Natura's shares appreciated 42%, and ALL, 12%.

Caemi

In Dynamo Report 37, covering the first quarter of 2003, we discussed the rationale behind our investment in Caemi, the biggest position in our portfolio.

This report has been prepared for information purposes only and it is not intended to be an offer for sale or purchase of any class of shares of Dynamo Cougar, or any other securities. All our opinions and forecasts may change without notice. Past performance is no guarantee of future performance. According to the Brazilian laws, investment funds are not guaranteed by the fund administrator, nor by the fund manager. Investment funds do not even count for any mechanism of insurance.

folio at the time. We explained the reasons why, since 2000, Caemi had been traded in the market at a high discount in relation to its peers. First, due to the uncertainties generated by the instability of its control structure, when the Fering family put up 60% of the company's common stock for sale. Then, the fact that CVRD (Vale do Rio Doce) took control of Caemi with an investment limited to a mere 17% of total capital did not help. Finally, when the control situation stabilized with the exit of Mitsui and CVRD acquiring 100% of voting stock and 60% of total capital, many investors were doubtful about Caemi's strategic direction, given the potentially awkward position where its majority shareholder was a potential competitor at the marketplace.

We were optimistic about our investment in the company against a skeptical and indecisive mainstream, so sure were we of the high quality of Caemi's operational fundamentals. A combination of a recent investment cycle, double digit price adjustments, and the growing volumes of iron ore deliveries guaranteed by the activity of the Chinese market, conveyed an encouraging free cash flow scenario. Moreover, we believed in Vale's assurances that it would run Caemi independently, in line with its own highest transparency, accountability, and corporate governance standards.

And this is exactly what has happened. The company's investor relations department became pro-active, deepened its contacts with the financial community, standards of transparency and disclosure were improved, board and senior management decisions have been taken exclusively with Caemi's interests in mind. In summary, we have seen a genuine effort to bring all Vale's good capital market practices into Caemi.

This has all taken place with the background of a consistent operational performance, with the company de-

livering increasing results quarter after quarter. An *ex post* analysis shows that the reasons for such distrust were exaggerated. Since then (March 2003), Caemi share prices have increased by an impressive 152%, and we continue to view them as a good investment.

Recently, company management has expressed an interest in acquiring minority investments in Cadam and MBR, in addition to Pará Pigmentos, a Vale subsidiary in the kaolin business. This move rekindles the concerns about possible conflicts of interest, since Caemi would be acquiring an asset from its controlling shareholder. A new wave of suspicion threatens to impact the share price. This gives us a *déjà vu* sensation. Since we believe in the signs of competence and seriousness of the current management, if these transactions take place, we are confident that it will occur in a context of full transparency and will add value for all company shareholders.

Furthermore, operating results remain consistent. Caemi expects to sell approximately 41 million tons of iron ore this year, an increase of 8% over 2003. The iron ore market is still very strong and we project an 8% price increase for next year. Although, growth deceleration in China will eventually impact the steel market, it should not cause the same effect on iron ore, which is far from showing any signs of slowing down. MRS Logística continues in the same direction increasing the efficiency of its railroads, the volume transported, and results reported. Based on its projected operating cash generation of US\$ 465 million for 2005, Caemi is currently trading at a multiple of $3.6 \times \text{Ev/Ebitda}$ and a free cash flow yield of 15% for that year. Given the nature of its business, we believe that this company's downside risk is minimal. Thus, we confidently maintain our optimism regarding Caemi's future prospects.

hind this mistake of economic *rationale*? What could have caused such drowse in the process of companies' allegedly efficient contracting process?

Excesses

Two factors chiefly explain these stock option plan deformities. The first, known as the "managerial power" approach shows the essentially conflicting nature of the procedures for establishing executive stock option plans. This is due to the fact that the CEO has considerable influence over board decisions. In the US, as a rule, the board member responsible for approving the CEO's compensation package was elected on the latter's own recommendation, in the company's slate. In these circumstances, this board member is unlikely to oppose the person who, in fact, gave him the job¹. The theory of managerial power further affirms that the CEO's ability to extract rent depends on the degree of potential outrage provoked by his compensation. If the package is too aggressive, to approve it could undermine the board's reputation. In this event, another factor appears onto the scene: the power of camouflage, activated by the importance of outside perception of the nature of the package. An example of camouflage would be to hire external consultants whose advice usually validates the proposed compensation package. It is worth noting that these services are contracted by the human resources department, which is under the CEO's direct influence².

A number of surveys have gathered evidence supporting the managerial power arguments: the compensation package tends to be more generous and less performance-linked in companies whose executives have more power over the board, where the boards are bigger, where outsider board members are appointed by the CEO, where outsider directors are members of three or more boards and where large institutional

(1) In other words, the board of directors is also subject to agency problems. Pearl Meyers (2002) shows evidence that board members seek to protect their positions, either for financial reasons or for social or business "relational" aspects.

(2) In the Berkshire 2003 annual report, Warren Buffett states that executive compensation is still the acid test for corporate governance in the US. In his graphic style, he comments that "the couriers of this epidemic greed were usually consultants and human relations departments which had no problem perceiving who buttered their breads".

investor concentration is lower³. This focus is also endorsed by those familiar with the labyrinths of corporate relations. Allow us two illustrative quotes. The first, from Warren Buffett: "It is almost impossible, for example, in a boardroom populated by well-mannered people, to raise the question of whether the CEO should be replaced. It's equally awkward to question a proposed acquisition that has been endorsed by the CEO, particularly when his inside staff and outside advisors are present and unanimously support his decision. (They wouldn't be in the room if they didn't). Finally, when the compensation committee – armed, as always, with support from a high-paid consultant – reports on a megagrant of options to the CEO, it would be like belching at the dinner table for a director to suggest that the committee reconsider"⁴. And from Robert Monks: "CEOs have used their power and the accommodating skill of their professional advisors to confer wealth on themselves. There is no 'free' market in executive pay, it has been rigged. This corruption at the core is a cancer to the legitimacy of the corporation"⁵.

The second line of explanation for problematic stock option plan designs attributes the abuses to distorted valuations incurred by the parties involved in the process. This is the so-called "perceived cost" approach, based on two main assumptions: i) non-diversified risk averse executives perceive their stock option plans as being too risky and discount the options properly; ii) often, and erroneously, companies perceive options as a relatively low compensation cost.

How costly is a stock option grant to a company? As a rule, this can be calculated by applying an option-pricing model such as Black-Scholes, binomial, APM, Monte Carlo, etc. The only problem here is that these methodologies are based on the assumption that holders of stock options are

market agents able to freely negotiate their assets. For example, they could hedge their position, short selling the shares of the underlying company. This practice is prohibited for stock option plans, since it would blatantly contradict the basic argument of pursuing alignment of interests⁶. In this context, the universal assumption of risk neutrality of these models loses all validity. Unable to trade or hedge their options, holders of stock option packages would have to discount the value of their options. Accordingly, the cost of the option to the company becomes higher than it is to the employee, since the former is the opportunity cost of the sale of the option to the market, and the latter is the cost of a non-negotiable option for a non-diversified risk averse individual. Studies show that, under certain assumptions of risk aversion and diversification, employees value *at-the-money* options by

costs incurred, caused by tax, accounting, and even market performance reasons. As we saw in Dynamo Report 40, non-qualified stock option plans tend to be the norm, where the difference between market price and exercise price at the moment of exercise represents a deductible expense for the company. In other words, when the options are exercised, the company issues new shares to the employee, thereby obtaining a tax "benefit" on the difference between market and exercise prices. Since 1993, the US tax system has prohibited the deduction of expenses related to compensations over US\$ 1 million, unless these salaries are performance based, as is the case with fixed exercise price options. Thus, if the only alternative is a cash payment, stock options hold a significant tax advantage. But, when compared with other performance based pays, the treatment is similar.

Dynamo Cougar x IBX x Ibovespa Performance up to june/2004 (in R\$)

Period	Dynamo Cougar	IBX	Ibovespa
60 months	364,64%	172,81%	83,81%
36 months	141,70%	71,60%	44,23%
24 months	112,65%	82,80%	86,96%
12 months	57,10%	56,83%	61,08%
3 months	1,62%	-4,89%	-5,25%
NAV/Share on 30/06/2004 = R\$ 61,19302056			

the time they are granted at around only 20% to 50% of the value computed on the Black-Scholes models, i. e., of the cost for the companies⁷. This explains a frequent complaint by executives regarding the high amounts deriving from the BS model, and their insistence on demanding high premiums to accept options instead of cash and, accordingly, the "need" of their companies to grant more options to offset this implicit discount⁸.

In addition to the value disparity identified by the parties involved, the "perceived cost" theory reveals the liberal policy of companies in granting options as being a defect in their perception of the real

The accounting position has also been much examined in the debate about stock option plan excesses. The basic accounting rule on stock options was established in 1972 by the Accounting Principles Board, which preceded FASB. APB Note No. 25 recommends companies to recognize options as an "intrinsic value" expense, i.e., at the difference between the market

and exercise price when the latter becomes known. However, most US companies grant at-the-money stock options, which do not involve any accounting record. In 1995, FASB introduced the FAS 123 rule, whereby companies are encouraged to expense options on the income statement income according to "fair value" method. In other words, options should be recognized at their market value via some pricing method. Nevertheless, admitting the complexity of the matter, FASB continued to accept the old APB 25 rule, provided that the respective "fair value" was disclosed in the notes to the financial statements. Up until 2002, few companies had applied the FASB recommendation. With the accounting scandals

(3) See, for example, Core, Holthausen, and Larcker, 1999. Other indications of board reciprocity in relation to executives are the comprehensive use of the golden goodbyes – benefits for departing CEO's - in addition to soft lands, i.e., dismissal insurance.

(4) Berkshire Hathaway - Letter to Shareholders, 2002, page 17.

(5) The New Global Investor, 2001, Capstone, Oxford, UK, page 70.

(6) Moreover, there is evidence of significant tax disadvantages in such hedging operations. See Schizer, D., 2000.

(7) Hall, B. and Murphy, K., 2000, 2002, and 2003.

(8) An alternative for reducing this discount is the transferable stock option policy, such as the Microsoft model.

of early 2003, a number of companies voluntarily announced their willingness to adhere the suggestion of the Board. Recently, FASB submitted to a public hearing a recommendation for companies to recognize these costs in their financial statements while it also manifesting its preference towards binomial pricing models⁹.

The subject is far from any consensus, so it merits a brief additional digression. Many see excessive regulatory zeal in this requirement since, for the company, stock options represent no loss whatsoever: at the time of grant, there is no cash impact; at the time of exercise, cash comes into the company against shareholder dilution. In the extreme, there are those who believe that the volume of options could even increase and not decrease, since tax treatment as expenses permits advance deductibility (Michel, N. and Garwood, P. 2002). In explaining its position, the FASB argues in favor of good accounting practices, as recommended by the IASB and the European Union. It points out that "assets are the probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events" (FASB 2004, page xii). However, employee services cannot be stocked; they are received and used simultaneously by the company. Thus, when a company acquires such services and, in return, offers a share of its equity, an asset is created that must be capitalized as part of another asset (intellectual property, for example) or expensed as it is consumed. In other words, the respective accounting entry must reflect as accurately as possible the measuring of the costs and expenses that contributed to the result of the transaction in question. Accordingly, an estimated market value of this expense would be an appropriate measurement to reflect the opportunity cost of the utilization of such resources. As we are reminded by Alan Greenspan: "To assume that option

grants are not an expense is to assume that the real resources that contributed to the creation of the value of the output were free"¹⁰.

Thus, the perceived cost approach suggests that permissive accounting treatments have contributed to company liberality in granting stock options, since they mask the reality of the respective expense¹¹. Lastly, a third disturbing factor in calculating the economic cost of options was the bull market itself, which prevented a more objective analysis about the value of stock option plans and their true impact on subsequent company performance. It is well known that a number of factors not necessarily related to corporate strategies or to executive performance contributed to the increase in share prices. In addition to the difficulty of distinguishing and quantifying the specific contribution from executives, aided by the complacency arising from the prosperous environment of the time, the basic argument for approving these packages was always based on the fact that they were in line with the then current "market" levels of compensation. Now, in an artificially inflated market, average compensation grows inertially every year, leading to a self-fed adjustment standard.

Together, the two approaches help explain why the design of stock option packages has been sub-optimal: i) the contracting environment is distorted (theory of management power) and, ii) a certain shortsightedness prevails in the contracting parties' perception of value (perceived cost theory). Hence the absence of some features that would result in a fairer contracting as, for example, indexed option plans. It would seem reasonable to include some type of indexation reflecting the opportunity cost of the option granted in the exercise price¹². Nevertheless, only about 1% of US market plans are indexed. The explanation: i) it is

not in the executives' interest to have their plans indexed; ii) for accounting purposes, indexed options should be recorded as expenses, whereas traditional options are not; iii) in traditional plans, the probability of the share price surpassing the strike price at the moment of exercise is far greater. The probability of a non-indexed plan being in-the-money after ten years is around 80%, and 50% for an indexed plan¹³. In other words, if indexation lessens the cost for the company granting the stock options, it even further reduces the amount received by non-diversified executives¹⁴.

Another remarkable phenomenon is the fact that 90% of the total option plans were granted to lower levels employees, including rank and file workers. For people at these levels, individual performance is highly unlikely to produce the kind of corporate results that could in any way influence share prices. And even if the reverse were true, this would result in the classic free rider problem, since these employees would hardly benefit from the gain generated by their efforts, as their share of the company capital is minimal. In fact, recent surveys have concluded that options are an inefficient incentive mechanism at middle management level¹⁵. Other salary packages linked to operational performance are more efficient in these cases. Also in this aspect, it seems that companies have let themselves be led by an erroneous perception of the true economic costs and end up granting stock options at above optimum incentive limits.

Fragility

There is still much argument about the role of stock option plans as a pay method and their effectiveness in attracting, retaining, and motivating employees. The supporters claim that options attain these goals with no cash outlay. Stock option

(9) FASB, Proposed Statement of Financial Accounting Standards – Share-Based Payment, 31/03/2004.

(10) Greenspan, A. (2002).

(11) Warren Buffett: "If options aren't a form of compensation, what are they? If compensation isn't an expense, what is it? And if expenses shouldn't go to earnings calculation, where in the world should they go?"

(12) Once again, we quote Buffett (1985): "Nowhere in the business world are ten-year fixed-price options on all or a portion of a business granted to outsiders", or also "In fact, the business project in which you wish to have an option frequently is a project in which you would reject ownership".

(13) The underlying assumptions for these results can be found in Hall and Murphy, 2003.

(14) A similar situation arises from the finding that the majority of stock options are granted at-the-money. If the opportunity cost of capital were to be considered, non-indexed options should be out-of-the-money. This not being the case, executives will make profits with their options by just retaining earnings. In this respect, as seen in our previous Report, it would also be advantageous to adjust the option exercise price to payment of dividends, in order to avoid a situation where non-payment of dividends improves executive salary packages.

(15) Paul Oyer and Scott Schaefer 2004.

plans would be an “option” for the company, since the “deferred” payment to compensate employee achievement is conditional upon delivery: the options may only be exercised if the share price rises and, if this is the case, all shareholders will have benefited. To end stock option plans would be to deprive companies to grow leveraged by employee efforts. For example, it would have totally undermined the success of technology companies.

The critics counter-attack by claiming that no definitive empirical evidence exists to support this argument. They point out that companies such as Microsoft, Intel, and Cisco commonly utilized stock option plans, but have never lacked for cash. Moreover, as seen above, non-diversified risk-averse employees are unlikely to be an efficient source for a company to obtain funds. Lastly, it is impossible to affirm with total conviction that a company’s improved share performance was due to the skills of its executives and the diligence of its employees.

There is one technical aspect, of major importance, that has not been included in the polarized discussions about the theme. And that is a constitutive characteristic that distinguishes stock option plans from other types of market payments, which is its non-linearity, reflected in its leverage capacity. Contract linearity makes incentives more consistent, since the pay/performance ratio remains constant over time, as performance varies. A non-linear or discontinuous pay system can result in little or no incentives for these executives. For example, this is the case under a fixed ceiling target system. Once this threshold has been reached, there is no incentive for employees to further improve their performance.

The defining feature of an option is that its payoff varies as an exponential function of the underlying share price. Thus, the non-linearity of the options is reflected in their leverage capacity, i.e.,

share movements result in amplifying variations in the value of the options, which can rapidly reach extremes where incentives are no longer efficient. This effect occurs both ways: when a share price increases, the value of its option increases more than proportionally; when it falls, the trend is for options to more rapidly become out-of-the-money. This is known as *option fragility*, since it leads to wrong incentives. For example, if the share price increases significantly, the option value reaches a threshold at which executives tend to be more cautious and avoid risky strategic decisions or seek to exercise their packages as rapidly as possible¹⁶. When share prices drop, options go underwater, and can lead to four types of well documented decisions: i) executives abandon their pay package and seek a more favorable contract at another company – the incentive that should hold them actually encourages their resignation; ii) companies tend to grant more options at a lower price, thereby awarding poor performance; on adjusting the incentive *ex post*, they downgrade the incentive *ex ante*; iii) executives take increasingly risky decisions in an attempt to reestablish the value of their options; iv) executives tend to manipulate the share price and/or alter dividend policy¹⁷. This type of behavior is not uncommon. At the end of the 1999 bullish market, approximately one-third of all US executive stock option plans were already underwater¹⁸.

In seeking to explain the reasons behind stock option package divergences, both approaches recommend improved corporate governance as a repair mechanism. In the case of “management power”, the solution is straightforward: increased supervision over executives and their power to influence the design of stock option plans. This could, for example, involve submitting them to the approval of all shareholders. In the “perceived cost” approach, the challenge is to design incentives and conditions for boards of directors to be able to make

decisions based on real economic costs and not on falsely perceived costs. It would also be advisable to require, and not just recommend, an appropriate accounting treatment. In this matter, it is interesting to note that executives act rationally when they estimate the value of their own packages (imposing a discount in their condition of non-diversified agents averse to risk), but become extremely shortsighted when it comes to calculating the cost of the options to the companies they manage. In other words, the executive diligently looks out for his/her own interests but is somewhat careless when dealing with corporate interests. The administrative accountability and penal enforcement provided in the Sarbox Act suggest some adequate methods for rectifying such undesirable schizophrenia.

In both cases, the combination of increased shareholder activism and more effective legal enforcement seems to have the power to correct stock option plan deviations, thereby transforming them into more efficient contracts for their companies. The option plan fragility case is more serious. There are no longer cases of behavioral transgressions, but of character deviation, i.e., there is a constituting factor in these stock option packages that constantly menaces the standard of healthy incentives: non-linear contracts entice executives into gaming. Activism and governance recommendations can reduce this maneuvering space, but supervision must be constant, which leads to prohibitive agency costs.

Restricted Shares

An alternative for avoiding the option fragility problem while maintaining the potential for the alignment of interests of market based compensation mechanisms would be to grant restricted shares. In this case, the executive would receive or acquire shares, in cash or via a loan, and immediately become a company shareholder holding all inherent shareholder rights, except negotiability for a given period of time. This

(16) This is a somewhat academic consideration, since there is nothing the executives can do during the vesting period and, thus, the perceived value of their options cannot be realized. In practice, options are exercised as soon as the vesting period terminates. Hall and Murphy (2000) show evidence that executives exercise their options immediately after share prices rally, to guarantee their gains.

(17) A number of surveys have found evidence that stock option packages reduce dividend payment incentives and/or increase the trend to repurchase shares. Examples: Lambert, Larcker (1989), Bartov, Krinsky, and Lee (1998), in addition to Hall and Murphy (2003). There have also been cases where executives time news announcements in accordance with the proximity of the dates of options grants and/or exercises (cf. Graef Crystal 2003).

(18) According to Hall and Knox (2002), the reason behind this surprising result is the fact that share prices have an approximately lognormal distribution skewed to the right. In other words, even if average returns are high, the expected extreme positive values lead to a high percentage of underwater options.

is a linear compensation and includes no diverging incentives arising from option leverage, while also removing the need to deal with the complexities of valuation. Restricted shares have the advantage of immediately transferring a portion of the company's market value to the employee, thus representing a certain benefit. Even if share prices drop, restricted shares hold value for their holders, which signals an incentive for more longstanding retention than option plans. Furthermore, restricted shares also represent an additional advantage over options in highly volatile markets such as ours, where the implicit value resulting from pricing models are very high¹⁹, especially

considering the possible requirement for stock option grants to be treated as expenses.

Thus, shareholders should prefer restricted shares, since they bear an additional linear incentive credential. In fact, a consistent move to substitute options for shares has become the latest trend in a number of US companies.

Before concluding our trilogy, we must remind ourselves of the lessons given in the two previous Reports. If pay methods linked to shares are welcome, given our market's defined control structure, it is also

true that external events impact the direction of shares, thereby confusing the signals of incentive-performance inherent to this type of remuneration. For this reason, individual and company-wide operational criteria, based on return on investments and on creation of value for all shareholders, are essential to adequately orient the corporate incentives system. In this way, we should finally arrive at the desirable combination of variable pay package features, steered towards a more robust compensation system.

Rio de Janeiro, november 9th, 2004.

(19) All more constant, the greater the market volatility the greater the probability of options remaining underwater.

Dynamo Cougar x Ibovespa x FGV-100 (in US\$ dollars)

Period	DYNAMO COUGAR*			FGV-100**			IBOVESPA***		
	Quarter	Year to Date	Since 01/09/93	Quarter	Year to Date	Since 01/09/93	Quarter	Year to Date	Since 01/09/93
1993	-	38,78	38,78	-	9,07	9,07	-	11,12	11,12
1994	-	245,55	379,54	-	165,25	189,30	-	58,59	76,22
1995	-	-3,62	362,20	-	-35,06	87,87	-	-13,48	52,47
1996	-	53,56	609,75	-	6,62	100,30	-	53,19	133,57
1997	-	-6,20	565,50	-	-4,10	92,00	-	34,40	213,80
1998	-	-19,14	438,13	-	-31,49	31,54	-	-38,4	93,27
1999	-	104,64	1001,24	-	116,46	184,73	-	69,49	227,58
2000	-	3,02	1034,53	-7,69	-2,63	177,23	-10,45	-18,08	168,33
1 st Quar/01	-0,98	-0,98	1023,40	-10,06	-10,06	149,33	-16,00	-16,00	125,39
2 nd Quar/01	-6,15	-7,07	954,28	-1,76	-11,64	144,95	-3,73	-19,14	116,97
3 rd Quar/01	-27,25	-32,40	666,97	-33,81	-41,52	62,12	-36,93	-49,00	36,84
4 th Quar/01	38,52	-6,36	962,40	55,88	-8,84	152,71	49,07	-23,98	103,99
1 st Quar/02	13,05	13,05	1101,05	3,89	3,89	162,55	-2,76	-2,76	98,35
2 nd Quar/02	-19,15	-8,60	871,04	-22,45	-19,43	103,60	-31,62	-33,51	35,63
3 rd Quar/02	-22,31	-28,99	654,37	-31,78	-45,04	38,90	-44,17	-62,88	-24,28
4 th Quar/02	29,76	-7,86	878,90	38,00	-24,15	91,67	45,43	-46,01	10,12
1 st Quar/03	4,47	4,47	922,65	4,63	4,63	100,55	5,39	5,39	16,06
2 nd Quar/03	27,29	32,98	1201,73	38,16	44,55	177,07	34,33	41,58	55,91
3 rd Quar/03	19,37	58,73	1453,83	24,72	80,29	245,56	22,34	73,20	90,74
4 th Quar/03	22,18	93,94	1798,51	35,98	145,16	369,91	39,17	141,04	165,44
1 st Quar/04	4,67	4,67	1887,16	2,35	2,35	380,16	-1,40	-1,40	161,72
2 nd Quar/04	-4,89	-0,45	1790,04	-8,66	-6,51	339,30	-11,31	-12,56	132,11

Average Net Asset Value for Dynamo Cougar (Last 36 months): R\$ 186.840.390,06

(*) The Dynamo Cougar Fund figures are audited by KPMG and returns net of all costs and fees, except for Adjustment of Performance Fee, if due.

(**) Index that includes 100 companies, but excludes banks and state-owned companies. (***) Ibovespa average.

Please visit our website if you would like to compare the performance of Dynamo funds to other indices.

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DYNAMO

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