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Dispersed and Concentrated Ownership
– A Topic Revisited –

Business and companies are our addiction and our occupation. It is in this microcosm of corporate activity that we believe the main investment insights are to be found, and it is to this area that we devote our time and efforts. And, if language is the expression of desire, nothing is more innate in us than to discuss and write about the object of our will: the companies.

This vast spectrum of corporate relations does not occur in a vacuum. On the contrary, it requires some means of propagation. Without losing our primary focus, it is also important to investigate the macro-environment of capital markets, the corporate governance regimes, the law systems, and the institutional standards that pervade and maybe guide the direction of companies' trajectories. This requires entering into deeper and less obvious fields of theories and concepts. However, our experience here at Dynamo is that this is a rewarding task, one that adds valuable knowledge to our decision process to invest and divest.

Thus, our intention in this Report, under the justifiable license of a more conceptual focus, is to examine a crucial topic, the basic ingredient of an effective corporate governance system, i.e., the ownership regime. The topic has been a frequent in past Reports. Now we update the bibliographic references and our interpretations on the subject, one that richly deserves a revival in a rapidly changing market.

Ownership and Corporate Governance – Convergence or Persistence?

The life story of Brazilian minority shareholder has been one of difficulties. One of ownership concentrated in hermetically sealed blocks, weak legal protection, private control benefits, and scant liquidity. In this context, our approach was always to applaud the virtues of the US Corporate Governance system – widespread ownership, strong legal protection, high levels of disclosure, and shareholder supremacy – with emphasis on the benefits of a more equitable and democratic structure. The US model became the obvious and natural reference, thanks to the practical evidence of a system that produces lower cost of capital, higher value and liquidity, and, in theory, one that promoted greater economic efficiency.

Then, all of a sudden, the Novo Mercado arrived. At first, diffidently. Now, it can already be considered quite a success. New companies (more than fifty) listed under infinitely fairer rules, some of them even having pioneered a dispersed ownership structure. What was once an idyllic dream has now become a tangible reality. As "reality lays out in the middle of the crossing", the confrontation with reality was inevitable, one that forced us to stop and think.

This is a particularly auspicious moment for our review. It coincides with current discussions involving several policy makers, capital market authorities, and distinguished academics from all over the world. The crux of the matter is whether a particular system of governance holds out any advantage over the others. When companies compete in a globalized product and service markets, corporate governance systems that incontrovertibly influence how they are managed and capitalized, can also point the way to an important competitive edge.

Ownership structure is so important in a corporate governance system that

Our Performance

Over this last quarter, Dynamo Cougar earned 17.6%, totaling a return of 36.8% in 2006, against 33.7% of *Ibovespa* and 35.9% of *IBX*. Over the last ten years, Dynamo Cougar has recorded a real gain of 22.1% *pa* above inflation measured over the *IGP-M*, and 25.0% *pa* in US dollars. During this same period, the *Ibovespa* appreciated by 9.3% *pa* over the *IGP-M* and 11.9% *pa* in US dollars, and the *IBX* 13.8% *pa* and 16.5% *pa* respectively.

For the fourth consecutive year, *Ibovespa* recorded positive gains in dollar. In its entire life, this sequence occurred once only: precisely during its first four years, from 1968 to 1971, when the Index recorded a gain of 71.8% *pa* over the US dollar. In 1972, the instability of humor proper of youth came to ask for the bill. The *Ibovespa* dropped by close to 50% in US dollars, thereby shrinking the compound return of the first five years to 34% *pa*

All this to remind us that we are living in historic times. A virtuous combination of global economic growth with corporate profits and productivity at a high, controlled inflation, declining and converging interest rates, open financial markets, an abundance of world liquidity, and risk premiums on the ground. In such an environment, it would be natural for equity markets to rise across the board. In a more stable and predictable world, future is less discounted by agents. With financial markets open and more arbitrated, entrepreneurship is a scarce asset which relative price has soared. As a reflex, our nearly forty-year old *Ibovespa* retains a mature vitality. Even with the recent increase in global volatility and some domestic public management problems, to date, the radar system of specialists in predictions of this type, shows nothing suggesting a price level adjustment of the scale of 1972.

Dynamo Cougar has also benefited from this exceptional environment. For 2003/2006, the Fund reported a nominal return of 41.2%^{pa}, of 32.4 ^{pa} over the IGP-M and of 61.1% ^{pa} in US dollars. On the other hand, we should recognize that in a market where investors have an optimistic bias, where market prices overshoot fair values, the lives of more fundamentalist investors are somewhat tougher. Here, at Dynamo Cougar, our research efforts have been based on two chief aims: i) to find good assets at still reasonable prices – at presents, some of the more 'traditional' companies are those that still offer this combination, which is why they continue to be among the Fund's main positions; ii) to continue closely monitoring these interesting, albeit costlier, stories, in order to take advantage of any potential buy opportunity, at such time as the market is impacted by a price correction. This would seem to be the case with some IPOs, where the key word is also selectivity. Paying for growth only in the context of a consistent business model, with competent management, that is not basically dependent on outside favorable winds.

it actually defines its own philogeny, classifying it in two different models of governance: the 'market' and the 'control block' one. The market corporate governance system is characterized by dispersed ownership, in which shareholders act primarily as portfolio investors and delegate wide discretionary management powers to executives. Under the control block system, capital is concentrated and the control of the company is permanently in the hands of a single shareholder or a small group of shareholders.

As a general rule, the market model assures increased protection of shareholder rights, greater liquidity, wider diversification, and a stronger capital market. This system has two intrinsic drawbacks: i) few incentives for minority shareholders to exercise the costly task of monitoring the company's executives, and ii) an alleged tendency to give preference to short-term decisions that bring immediately impact over share prices.

An advantage of the control block system is the continuous monitoring role of the controlling shareholder. The owner of the business also has direct access to the flow of information and the capacity to more speedily intervene should senior management show signs of negligence. However, as a rule, in countries where this system prevails, capital market is more limited, has lower liquidity, and, in many of them the level of legal protection is minimal. This encourages controlling shareholders to expropriate value from minority shareholders, via a number of private control benefits. Later on, we shall examine this topic in greater detail.

A third system aims for the possibility of combining the advantages of both models, resulting in an enhanced hybrid solution. Although still a hypothetical option, some more recent reform proposals include this attempt to rectify mutual weaknesses by combining the better features of both systems. In the US, one reform agenda suggestion recommends deregulation of institutional investor controls. This would encourage the formation of larger shareholders 'blocks', thereby monitoring more effectively the executives. In Europe and also in Brazil, proposals recommend more vigorous securities' regulation, in order to increase shareholder protection and market liquidity.

Despite intense theoretical discussion and empirical studies, to date, no definitive conclusion has been reached in respect of the superiority of one system over another[1]. Some specialists have rejected the concept that a global convergence could eliminate the systemic differences between these structures and that an emerging hybrid model could function effectively. One argument is that each of these corporate government systems is based on complex and indissoluble incentive structures, producing different trade-offs: concentration of ownership x liquidity, monitoring x management initiative, private rent seeking x activity benefiting shareholders as a group, etc., all of which limit the productive possibility of interchange between them (Bratton and McCahery 2002). Another approach stresses the importance of "institutional complementarity", involving alert auditors, a strong secondary capital market, specialized regulators, independent fair opinion advisors, and credible analysts. In this context, "Corporate Governance" consists of actual 'systems' and not just 'features'. In this way, the case for only transplant elements disregarding the need to be institutionally complementary could result in grave problems in the future, even hindering or reversing any trend to convergence (Gordon and Roe 2002).

It would seem that the command center of a corporate governance system is one of ownership structure. If we intend to unearth clues regarding the dynamics of those systems, it is here that we must dig.

Ownership Structure – Origins

What exactly determines the ownership structure of a given country? There are a number of explanations, all of them competing for first place as the best answer. The first and best known, suggests that the ownership structure and corporate governance regime emerge as a company's internal reply to the demands for growth and competitiveness of its business. At the initial stage of development of companies, usually typical family businesses, they were run and controlled by the owners themselves. Over time and with the increased scale of such companies, ownership became diluted, and management decisions were outsourced to independent

(1) *Two interesting discussions on this topic can be found in the collected works of J. Gordon and M. Roe (2004) and of J. McCahery, P. Moerland, T. Raaijmakers, and L Renneboog (2002). The complete references can be found in our website: www.dynamo.com.br-library.*

professionals. As managers call for further capital increases, ownership becomes more spread. In open markets, where there is a political incentive towards competition, the modern company becomes the result of an 'endogenous' response to the technological and competitive imperatives of an urban and industrial society (Alfred Chandler 1988).

Another approach (Mark Roe 2006) highlights the importance of political factors to the different ownership structures. Roe notes that, during the twentieth century, companies became subject to the supremacy of the legislative in setting up their legal systems. The regulator gradually replaced the judge in defining the content of legal protection, a process that occurred even in the US. In other words, civil law regulation prevailed. And, in Roe's opinion, all legislative production is born of political interests. Forces of a political nature end up establishing the system of governance and the structure of ownership in capital markets[2]. When political pressure favors other stakeholders over private rights, the concentrated ownership system prevails. In these circumstances, executives are obliged to act in the interests of other stakeholders (banks, workers, government) and not those of the shareholders. In turn, the latter tend to get concentrated in control blocks, since widespread ownership is synonymous with powerlessness. Roe points out that this occurred in Germany, Japan, and France, while, in the US and England (US&E), banks and trades unions held less power, thus enabling the prevalence of substantial shareholder rights[3]. In another variant, Bebchuk and Roe (1999) state that, over time, political interests, parallel to other inertial factors, tend to perpetuate the structure of ownership. In this case, the theory is that a given country's business rules, governance model, and ownership structure follow the path dependence of prior circumstances and, in final analysis, of the original period of formation.

Brian Cheffins sought to identify the exact moment in time at which the move towards dispersed ownership in the US&E actually began, in addition to the reasons behind this. An intense period of mergers ('craze combinations') played a leading role in this process, as long as it generated a significant demand for shares, arising from the merged companies' confidence in exiting their positions through the market. In turn, the chief rationale behind this wave of mergers was a certain business optimism in the US at the beginning of the twentieth century (Cheffins 2003), and an improved anti-trust legislation in England during 1950-1970 (Cheffins 2004).

Rajan and Zingales (2003) stress the importance of open trade and free capital access to create the pressure required to develop a competitive financial market. Without it, the incumbent agents, such as banks and major industrial conglomerates, will continue exploiting their advantages, concentrating blocks of shares, making intercompany loans, and obtaining special lines of credit. The authors also remind us of Japan's, Germany's, and France's experience of a more widespread distribution of capital from the nineteen nineties on, a time when their own economies started to open up significantly[4].

In stressing the 'endogenous' case, Mary O'Sullivan (2000) sees the widespread ownership phenomenon in the US as the result of systematic managers effort to dilute owners control power via greater liquidity in capital market rather than an investor/owner risk diversification strategy. Accordingly, aiming at accommodating negotiations between executives seeking to perpetuate their control over companies and owners on the brink of retirement, companies began issuing securities to the public.

LaPorte, Lopez-de Silanes, and Vishny (LaPorte, Lopez-de Silanes, and Vishny 1997, 1998, 1999, 2000) uphold the theory that "the law matters": the differences between the levels of concentration of ownership can be explained by the amount of legislative shareholder protection. In common law countries, where shareholder rights and effective legal enforcement are greater, ownership is more widely distributed. In countries where legal protection is weak, usually the case of countries governed by civil law, this ownership is concentrated. When unprotected minority shareholders are exposed to controller expropriation, the interest in shares outside the control block lessens, at the same time as the wish of opposing the control block increases. Liquidity declines, market lacks flexibility, and capital costs soar. "The legal environment shapes the size of the private benefits and therefore determines the equilibrium ownership structure", as well as the quality of the capital market.

The works of LaPorte, Lopez-de Silanes, and Vishny, duly supported by empirical documents, are highly original and establish a clear relationship between legal traditions and ownership/governance systems in the twentieth century. Readers with long memories are fully aware of our appreciation of these results[5]. Against them, the reminding that, at the close of the nineteenth century, US&E experienced a reasonable dispersion of shares well before the introduction of even a modestly satisfactory protection environment (crf. Coffee 2001).

Finally, John Coffee (2001) recognizes the value of the works of LaPorte, Lopez-de Silanes, and Vishny, in relation to the importance of the legal structure. However, he believes that the main determining factor of the degree of dispersion of ownership is the presence of self-regulating mechanisms (such as the New York Stock Exchange). The role of these institutions would be to fill any potential legal loopholes, when the law had not yet been fully ratified. And, why did such private structures flourish only in countries such as the US&E? Because these countries, ruled by civil law, welcome private enterprises, whereas in Continental Europe central governments directly control capital markets.

These different approaches are complementary rather than excluding, and underscore the complexity of this topic. A diversity of combined factors, be these his-

(2) *What comes to mind here is Law No. 9457/1997, arising from the so-called Kandir Project, whereby the institution of tag-along rights was summarily removed from Brazilian Corporation Law, precisely at a time when the Brazilian Federal Government sought to maximize its control premium with privatizations through the stock market. Commenting on this matter, Modesto Carvalhosa state: "backsliding like this underscores the persistent nature of corporate legislation, at the service of the government macro politics of the day" (in The Reformation of Corporation Law, J. Lobo, 1998).*

(3) *In an econometric analysis among a number of countries, Roe found that post-war labor power varies directly in accordance with the level of destruction caused by World War II (2006).*

(4) *In contrast, other experts remind us that, at the beginning of the twentieth century, German and French markets were relatively 'developed', even prior to this increasingly widespread share ownership.*

(5) *For examples, Dynamo Report n. 26 and 27, published in early 2000.*

torical, cultural, economic, political, institutional, or judicial, explain the inertia and the movements in ownership systems. However, so many different interpretations makes not obvious any conclusion about the results of a movement – spontaneous or induced – in the direction of a new standard of ownership or even a different system of governance. Even so, just knowing and identifying the presence of these ingredients helps to place such initiatives in perspective.

Ownership – Dispersion and Concentration

As a rule, widespread ownership is one where each shareholder holds a reduced percentage of a company's capital. This regime usually comes together with a favorable institutional environment with stable rules and good legal protection, the basic prerequisites, as we have seen, for such model. This type of ownership structure is present in equity markets with higher company valuations and liquidity. When shareholders are dispersed, control power is potentially available in the market. Thus, widespread ownership allows the capital market to act as a means of disciplining management and more efficiently allocating resources, with proven results in terms of economic development and social welfare[6].

Another aspect of widely distributed ownership is the inherent problem of collective action, which undermines individual shareholder's ability to influence corporate decisions, and to monitor the course of the company's business. Good legal protection drives minority shareholders away from corporate decisions, which are taken by professional managers they have elected. Thus, minority shareholders become diversified investors, with significant flexibility of movement within their portfolios. If they become dissatisfied with management of a given company, they would rather "vote with their feet", i.e., sell their shares in a liquid market, and elect another team of managers in another company. When the motivation to monitor company business drops and management is outsourced to professionals whose agenda frequently differs significantly from that of the shareholders, a potential conflict of interest arises. It was precisely a gap of this nature that led to the huge corporate scandals in the US, such as Enron, WorldCom, Global Corning, Tyco, Adelphia, etc. Corporate governance problems deriving from this model arise among shareholders and executives[7].

Although widespread ownership regime is used as a standard reference for ownership in corporate finance text books, since the publication of Berle and Means (1932) classic, it actually occurs in only a few countries. Comparative studies reveal a vast predominance of concentrated ownership in both developed and emerging economies (LaPorte, Lopez-de Silanes, and Vishny 1998).

Under a concentrated ownership model, one shareholder or a group of shareholders, usually signatories of a shareholder agreement, directly or indirectly acquires the majority of voting shares, and thus assumes command of corporate decisions. As a rule, this concentrated ownership represents a substantial portion of such shareholder's personal wealth, a major incentive to exercise the right to control and monitor the business. Bolton and von Thadden (1998) remind us that the advantage of control block vigilance is that it is ongoing. Coffee (1999) suggests that shareholder activism is directly proportional to the amount of ownership concentration. Thus, traditional motivation for concentrated ownership is that it reduces public good associated with monitoring actions. The greater the size of ownership, the greater the personal monitoring return (Dyck 2000). Specific studies carried out in concentrated ownership countries suggest that the presence of a united control block produces positive results for all shareholders (e.g., Edwards and Weichenrieder 1999 – Germany, Earle, Kucsera, and Telegdy 2004 – Hungary). Nevertheless, the wider the dispersion within the control block, the lower the company's valuation (Laeven and Levine 2006).

When compared with widespread ownership regime, we see some inherent costs in the concentrated regime: i) No more separation and specialization based on the competitive edges between those who provide management services and those who provide capital to invest. Risk management is poorer and capital pool availability is smaller (Dyck 2000); ii) Loss of liquidity with the consequent decline in share prices (Bolton and Von Thadden (1998); iii) Increased difficulty in changing control. If the performance of controlling shareholders and the executives they select is disappointing, there will be a loss in value; iv) When the concentration of power is greater than the economic interests of the shareholders, the incentives to use such control in benefit of minority shareholders is reduced, and the trend here is for investors to demand a discount on these companies (Lines 2002).

In theory, in this system, shareholders outside the control block can benefit, free-riding controlling shareholders efforts and diligence, which are directly proportional to such party's economic interest in the business. However, this control power can also be exercised in benefit of controlling exclusively, to the detriment of the other shareholders. And this is where the position of minority/hostage shareholder becomes dramatic, a recurring event in the life of Brazilian investors, as we have described in several past Reports. We know that control can be exercised by even a small percentage of total capital, regardless of whether this is through the extensive use of non-voting shares, of a pyramid holding system, or cross shareholdings. Empirical studies show that private control benefits vary inversely in proportion to the controller's economic interest. In other words, the greater the segregation between ownership and control, the more hermetically sealed the control block will be, thus rendering even more remote the possibility of any future dispersion of ownership (Bebchuk 1999).

Under the approach of LaPorte, Lopez-de Silanes, and Vishny, any judgment of value concerning ownership regimes would not be complete without an analysis of the legal system. Let us examine this aspect. Where the combination of good legal protection and widespread ownership exists, the system is stable and efficient, and tends to create value and liquidity to shareholders – as long as management interests are aligned accordingly. In this same favorable legal context, when ownership is concentrated, in theory, controlling shareholders will be less fearful of seeing their investments drop to a level that no longer guarantees them

(6) *As discussed in our last Report.*

(7) *It is interesting to note that it was reactions to these problems that led to tougher US market regulations, via the Sarbanes-Oxley Act, which precisely illustrates Mark Roe's point described above, on the prevalence of legislative production in contemporary society.*

control power, since, in this event, they know that they will not be expropriated under the new situation of non-controllers (LaPorte, Lopez-de Silanes, and Vishny 1998). Nevertheless, even if good legal protection represents an incentive to widely dispersed ownership, many countries in this position still have a concentrated ownership regime (New Zealand, Canada, and Hong Kong). In other words, legal protection becomes an essential prerequisite but one that is alone insufficient for dispersion. Other ingredients appear to be more important: complementary governance institutions, such as a political structure, judicial authorities, intermediary reputations, tax systems, etc[8].

Under a weak legal protection regime, wide dispersed ownership becomes unstable, since it opens room for raiders to take control via capital market and expropriate minority shareholders afterwards (Bebchuk 1998)[9]. Also, in this environment of weakness, controlling shareholders will have ample opportunities to appropriate private control benefits, which usually means expropriating value from minority shareholders. However, a diligent and honest controlling shareholder could substitute the inadequate governance mechanisms to ensure a better position for all shareholders (Lines 2002). In other words, when, thanks to institutional deficiencies, legal protection is weak, the benefits of 'identification'[10] and concentration could possibly offset the costs. In this regard, ownership structure can play the role of corporate governance (Dyck 2000). Thus, if concentrated control is not the only feasible option in countries with little legal protection, it could be more efficient than the efforts to introduce wider distribution of ownership (Coffee 1999). This is because, in such a case, concentration could present comparative advantages over widespread ownership in providing information, generating incentives, and reducing the costs of settling claims over the company's wealth. (Dyck 2000)[11].

There is absolutely no doubt that *Bovespa's* pioneering actions and the successful adhesion by companies under premium corporate governance standards should be acknowledged as one of the institutional marks of the development of our capital market. For the first time, an environment has been created in Brazil where the economic possibility of breaking down the control block is feasible, and where investors can allow themselves to pay up front based on future growth. In this context, the Novo Mercado personifies the argument of the importance of private initiatives creating self-regulating mechanisms (Coffee) that can establish some kind of break with the conventional/inert corporate governance structure (path dependence – Bebchuk and Roe) and, thus, pave the way towards widespread ownership. It is no coincidence that companies with widespread holdings in Brazil are all listed under the Novo Mercado rules. For those who attribute this success to the coincidence of the moment of significant liquidity in the global capital markets, the argument over the fundamental importance of opening up markets should also be recalled (Rajan and Zingales).

In addition to breaking with established conditions, widespread ownership imposes an additional challenge of adapting to a new practice of corporate relationships, where the general shareholders' meeting becomes the company's principal decision forum. It is interesting to remember that our corporate law already contains the chief rights required for shareholders to have free access to general meetings and to fully represent their vote's entitlement[12]. In this case, the institutional arrangement was born modern, preceding the *praxis*. And here lies our foreboding: the concentrated control habits created a type of shareholder unaccustomed to directly taking part in corporate decisions and a type of board member/director conditioned to act within the spectrum of controlling shareholder's preformed instructions. In other words, we do not have a critical mass of truly active investors, nor a labor market of directors qualified to meet these new requirements. As an example, we may recall the initial difficulties experienced by Lojas Renner to obtain a quorum to vote on ordinary matters. On the other hand, it is possible that, over time and as more companies tread this same path, the availability of qualified professionals will adjust to the new reality of demand.

Dynamo Cougar x IBX x Ibovespa
Performance up to december/2006 (in R$)

Period	Dynamo Cougar	IBX	Ibovespa
60 months	472,25%	354,22%	224,15%
36 months	157,19%	141,22%	100,06%
24 months	70,33%	86,57%	69,91%
12 months	36,80%	35,92%	33,73%
3 months	17,57%	22,77%	22,02%

NAV/Share on December 29th, 2006 = R$ 146,979245606

(8) *Hopner and Jackson (2004) suggest that the 2002 amendment to capital gains taxation system in Germany was a vital factor in enabling banks to start disposing of large ownership blocks. There is no doubt that inheritance tax law played a vital role to incentive wider dispersed ownership of family businesses in US.*

(9) *This seems to have been the case in Poland, when the country endorsed a privatization process through pulverization of capital, with not even minimal corporate governance requirements in place. Thanks to the poor performance of new management, some shareholders succeeded in gaining control of these companies at a market price significantly lower than the privatization one.*

(10) *It is a well-known fact that minority shareholders usually assign value to controlling shareholder's 'identity' and reputation. In this context, it seems preposterous that a company that recently went public in Brazil reserved the right not to identify its controlling shareholder, kept undisclosed under the confidentiality rules of incorporation in a tax haven. Understandably, the distribution price accepted by investors was 30% below the minimum price suggested, thereby imposing the highest discount in this IPO cycle.*

(11) *Here, an allusion to the similarity of trade-offs between the ownership regimes (widespread and concentrated) and the governance system (democracy and despotism) is appropriate. If democracy is a more equitable system a priori, we can imagine a situation of a despot governing competently and justly, avoiding any of the inherent disadvantages of the political bargaining process, as well as the social cost of monitoring that are an inherent part of the democratic system. Also, in these circumstances, the despot's interest to make a good govern strengthens the likelihood of his remaining in power. In the other hand, in modern democracies, Executive mandates, by definition, have a pre-established validity period.*

(12) *In Dynamo Reportn. 30 covering the first quarter of 2001, about pulverization of shares, we took the opportunity to list these principal rights: cumulative vote, vote by proxy, small percentage of shares required to call a shareholders' general meeting (and the possibility of reducing this quorum – art. 136), previous access to a list of shareholders, and tough limitations on impeding voting rights before these meetings.*

The ownership structure of a given country has deep historic and institutional roots and the corporate governance system derived cannot be a mere imitation or juxtaposition of outside standards viewed as ideal. As we have seen, a detailed discussion on the merits of ownership dispersion or concentration is very distant from being reduced to a simple binary and mutually excluding choice. If the absence of widespread ownership does not *ex ante* condemn a governance model and does not lead to an inferior capital market performance, this same concentrated ownership, with some legal enhancements, could bring about satisfactory value and liquidity results, as in other countries. Nevertheless, aiming northwards of widespread control seems more desirable, since it suggests that the navigation conditions (legal protection and fair treatment) would be favorable, provided they are accompanied by the fundamental presence of a market for corporate control. Lastly, it is vital that corporate governance systems be alert for signs of global competition and able to incorporate advances that produce a lower capital cost for companies. In this way, the market will be responsible for selecting better adapted structures, which will also enable the co-existence of different systems during times of change.

Rio de Janeiro, March 23rd, 2007

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	-	-38.40	93.27
1999	-	104.64	1,001.24	-	116.46	184.73	-	69.49	227.58
2000	-	3.02	1,034.53	-	-2.63	177.23	-	-18.08	168.33
2001	-	-6.36	962.40	-	-8.84	152.71	-	-23.98	103.99
1stQuar/02	13.05	13.05	1,101.05	3.89	3.89	162.55	-2.76	-2.76	98.35
2ndQuar/02	-19.15	-8.60	871.04	-22.45	-19.43	103.60	-31.62	-33.51	35.63
3rdQuar/02	-22.31	-28.99	654.37	-31.78	-45.04	38.90	-44.17	-62.88	-24.28
4thQuar/02	29.76	-7.86	878.90	38.00	-24.15	91.67	45.43	-46.01	10.12
1stQuar/03	4.47	4.47	922.65	4.63	4.63	100.55	5.39	5.39	16.06
2ndQuar/03	27.29	32.98	1,201.73	38.16	44.55	177.07	34.33	41.58	55.91
3rdQuar/03	19.37	58.73	1,453.83	24.72	80.29	245.56	22.34	73.20	90.74
4thQuar/03	22.18	93.94	1,798.51	35.98	145.16	369.91	39.17	141.04	165.44
1stQuar/04	4.67	4.67	1,887.16	2.35	2.35	380.16	-1.40	-1.40	161.72
2ndQuar/04	-4.89	-0.45	1,790.04	-8.66	-6.51	339.30	-11.31	-12.56	132.11
3rdQuar/04	35.12	34.52	2,453.91	23.73	15.67	443.56	21.13	5.92	181.16
4thQuar/04	22.17	64.35	3,020.19	25.32	44.96	581.16	21.00	28.16	240.19
1stQuar/05	-1.69	-1.69	2,967.41	-1.66	-1.66	569.87	1,06	1,06	243.80
2ndQuar/05	5.41	3.62	3,133.23	2.98	1.27	589.80	7.51	8.65	269.60
3rdQuar/05	32.32	37.12	4,178.29	25.21	26.80	763.71	31.63	43.01	386.50
4thQuar/05	2.97	41.19	4,305.49	3.13	30.77	790.73	0.75	44.09	390.17
1stQuar/06	23.32	23.32	5,332.90	18.89	18.89	958.98	22.51	22.51	500.48
2ndQuar/06	-3.88	18.54	5,122.20	-4.58	13.44	910.48	-2.68	19.23	484.40
3rdQuar/06	5.68	25.27	5,418.57	2.64	16.44	937.17	-1.03	17.99	478.36
4thQuar/06	19.56	49.77	6,498.25	23.01	43.23	1,175.83	24.08	46.41	617.65

Average Net Asset Value for Dynamo Cougar (Last 36 months): R$ 519,866,854.14

(*) The Dynamo Cougar Fund figures are audited by Price Waterhouse and Coopers 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: **www.dynamo.com.br**

For any further information, visit our web site:
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DYNAMO

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