Report

DYNAMO 71

3.2011

Takeover - American way

In July 2006, Sadia publicly announced its intention to make a public tender offer for Perdigão, its main competitor in the manufacture and processing of animal protein food. Today we know that the acquisition did not materialize. The paths of the two companies would eventually meet again in a definitive form and under different circumstances. But for us here at Dynamo, Sadia's initiative resonated.

After all, it was a ground-breaking operation in the recent history of our capital markets, where a change of control would occur in the marketplace, without a private premium, through a tender offer where all target company shareholders would receive rigorously equal treatment, under the rules of the Novo Mercado.

For some time, we discussed and reflected on this episode. As a basis for our long internal discussions, we revisited the technical literature available, searching for clues in the comparative experiences of other markets. We synthesized our reflections in three Dynamo Reports (Nos. 51, 52 and 53), in which we: i) analyzed the conceptual and practical implications of an effective market for corporate control, ii) described the evolution of takeovers in the U.S. market and its empirical results, and iii) discussed at length the origins and characteristics of two models of ownership structure - dispersed and concentrated. We finished the trilogy issuing a warning about the deceiving nature of statutes containing our tropicalized poison pills called "mechanisms to protect against shareholder dispersion".

Since then, the reality of control dispersion in Brazil has progressed exponentially. There are more than 50 companies where there isn't a shareholder - or a block of shareholders bound by an agreement - holding more than 50% of the voting shares. Additionally, other unsolicited offers like Sadia's have emerged. Including competing bids, as was the case with GVT in which we were shareholders, theoretically pursued in the marketplace by Vivendi and Telefonica.

The time is ripe to revisit the issue of unsolicited offers in light of new reflections and experiences. The CVM has been updating the regulatory framework on the procedures for tender offerings (Instruction No. 487) and market participants recently laid the foundation for the creation of the Mergers & Acquisitions Committee (CAF), inspired by the English Takeover Panel.

As the subject is somewhat new here, we propose a different angle of analysis in order to learn from comparative experiences. On the topic of the dispersion of capital and change of control, two markets quickly come to mind: United States and United Kingdom, where control is more diffuse and change of control episodes, hostile or not, are more frequent. Despite the many differences from our reality, if we are in fact moving towards a more dispersed market, nothing seems more reasonable than to look at these two countries. So in this Report we will focus on the United States, while the next one will examine the UK case.

US & UK

The American and British capital markets are considered the most developed in the world: rule of law, receptivity to capital and business activities, domicile of the best corporate governance and transparency practices. They established high standards of legal protection, legal stability based on common law, and predominantly dispersed ownership regimes, in such a way that they carry a number of attributes that secured two of the main objectives of financial centers: abundant liquidity and reasonable valuations. In fact, they stand out to the point that the "Anglo American" title was coined as a reference by other centers.

All these similarities mask very different realities underneath if we compare the rules and procedures of takeovers in these two markets. A very disturbing fact, since the presumption of a takeover, a change of control in the market, in its dual role as a value creator and enforcer of management discipline, emerged as a cornerstone of the governance regimes and even as a determinant of the very vitality of capital markets.

In the U.S., when a party intends to acquire control through the market it can do so through a voluntary bid, where the acquirer defines the number of shares subject to the bid. American law has never imposed on the offeror, if it reaches a certain threshold, a rule of compulsory acquisition (mandatory bid) of the other shareholders. The obligations of the acquirer are limited to paying the same price for all shares, to buy the pro rata number of shares of those who adhered to his offer, and to keep it open for at least twenty days. U.S. law thus protects investors against unfair deals that limit the timing and amount of shares subject to the offer. However it does not guarantee that they will be able to sell all of their shares in the case of a change of control.

On the other hand, the company, through its board of directors, can adopt a wide range of defensive measures in order to reject the offer. Poison pills are the most common provision. They allow, for example, a shareholder to buy two shares for the price of one, automatically diluting the participation of the offeror if it reaches a certain limit, usually between 10 and 15%. Companies with poison pills and staggered board provisions give their executives almost total discretion to resist unwanted offers. In the artillery of devices there are also mechanisms such as 'break up fees' and 'lockup provisions' that filter unsolicited offers, facilitating only those proposals friendly to the board. In virtually all American states, laws provide mechanisms that delay the progress of unwanted offers. Members of the board of directors may argue the need to consider the interests of other parties while deciding on a bid, bidders lose their voting rights until current shareholders decide to reinstate them, among others.

In UK, the regulation of tender offerings has distinct features. In terms of defenses, the differences between the two models are even more pronounced. Unlike their fellow Americans, British directors can't take, without prior consent of shareholders, any initiative that could frustrate the offer while it is ongoing ("*no frustrating action*"). Poison pills are totally forbidden, as are other provisions that interfere with the ability of shareholders to decide on the merits of the offer, such as to buy or sell their shares during the process or to agree with any lockup provision in favor of some bidder.

The British model also leaves little room for the so-called *embedded defenses* that serve to protect the officers, *ex-ante,* i.e. when there is no offer on the table. Issuance of two share classes, staggered boards or 'golden parachute' provisions for executives, are widespread practices of defenses *embedded* in the U.S. market. In British law, the board needs the approval of the general meeting of shareholders to issue new shares, which shall conform to the preemptive rights of existing shareholders. Corporate practice shows that British institutional investors, active participants of corporate decisions, tend to reject the initiative to create new classes of shares. On the London Stock Exchange, companies with two classes of shares usually trade at a discount. The power of the staggered board mechanism is completely deterred by the mandatory rule that shareholders can remove directors at any time. Provisions like golden parachute are also hampered by the demands for greater transparency of executive compensation packages, a constant subject of regular shareholder meetings in UK.

Another important difference between the two models is the rule of mandatory bids. In both countries, there is a prevailing principle of equal treatment, which requires that the price paid by the issuer is the same for all shareholders. But in UK, the rule went a step further and also imposed that any shareholder who reaches a 30% stake must make a tender offer to the remaining shareholders.

Thus, the two countries seem to have gone in an almost diametrically opposed direction when it comes to the regulation of takeovers. The American model gives more autonomy to the offeror, while giving management broad discretionary power to defend itself ("*just say no*"). On the other hand, the British system imposes restrictions on the offerors and eliminates any possibility of overt defense by executives with the board neutrality rule. Clearly, UK regulation is much more pro-shareholder and U.S. is closer to the interests of directors.

The pro-management bias of the American model is very intriguing. It sounds strange that in the empire of the democracy of capital, in the popular republic of shareholder, where markets are more developed and with greater capillarity, the final word on a subject so important (takeover) eventually shifts to the agent (manager) and not the principal (shareholder). Not even the biggest supporters of the mechanisms of defense against takeovers suggested an unconditional freedom of action for executives. Even for Martin Lipton, the creator of poison pills, the use of these provisions would only be justified as a response to abuses of certain hostile takeovers. Lipton discussed in detail the cases of excess, but never defended the prerogative that executives can simply "say no" to any offer indiscriminately.

Scholars have spent significant time and effort looking for a good explanation for this complex phenomenon. We have classified and summarized in three lines of argument the vast literature on the subject. They are complementary and non exclusive strands that together form an explanatory framework, though its proponents believe they have found the best individual answer to solve the puzzle. In our opinion, each one of them goes one step further, but is constrained by its own limitations. Together they form a more robust mosaic. So here we go.

Incentives

One line of argument to explain this pro-director bias of the American model was based on the incentives of the agents involved. In fact, the discussion picked up from an earlier and more comprehensive debate on the role of "federalism" in American corporate law, with an emphasis on the hegemonic position of the State of Delaware as the main destination of the incorporation of companies. In this debate, opinions were divided on whether the competition between the states of the federation would have produced a 'race to the bottom' or a 'race to the top'. The decision on where to incorporate a company is led by its executives and of course generates revenues for the state chosen. Thus, state legislators have incentives to align with executives, producing a deleterious race to the bottom. On the other end, the interpretation is that the competition between states obeys the incentives of the market and the interests of shareholders, thereby establishing a healthy race to the top.

The bridge between the two discussions is clear. On the subject of takeovers, the interests of executives and shareholders collide head-on. Those seeking to preserve the status quo prefer to reject the offers, while those seeking opportunities to maximize the value of their investments would rather accept the proposals. The reaction of observers was to use the argument of the race to the bottom where the interests of states and executives are aligned. In this sense, the orthodox interpretation for this pro-management bias of the law and jurisprudence of U.S. courts on the subject of takeovers ultimately resorted to federalism. As executives have custody over an important decision for the tax system in Delaware, the state courts have incentives to issue decisions more favorable to their preferences. Or to put it best: "Delaware cares a great deal not only about new incorporations but also about maintaining the large stock of companies it currently has. Managers play a crucial role in how successful Delaware is in maintaining its current position. The need to satisfy the preferences of managers of existing chartered corporations has proved to be an important force in the development of Delaware's law".[1]

The federalism version, with the reciprocal conciliation of interests between executives and state legislators, seems conceptually compelling, but is hampered by some evidences. If this was the case, Delaware should be the state of the federation with the set of rules most favorable to the interests of executives. In practice, Delaware was one of the last states to adopt an antitakeover statute and even so its statutes grant executives less discretion than elsewhere in the United States. Empirical studies also show that to reincorporate in Delaware adds value to companies, a result that seems counter-intuitive to an institutional arrangement in principle unfavorable to investors. Thus, incentives alone can't explain everything.

Institutions

An alternative interpretation seeks to fill these gaps, trying to explain the differences between the two models through an institutional lens, mainly related to the legal system. The differences are related to the number and diversity of features of the institutions that formulate and interpret the laws, as well as the *modus operandi* of the legal system in these countries. Before exploring this line of argument, we need a brief historical perspective.

The basis for regulating the U.S. capital market dates back to the Securities Act of 1933-34, when it created the SEC. Until then, the role of the regulator was in fact exercised by the New York Stock Exchange (NYSE) in a model of self-regulation. In the wake of the Great Depression, the reformers of the New Deal wanted to remove from Wall Street any kind of authority over U.S. capital market governance. The banks had their activities fragmented and trustees lost their voice and their vote in corporate decisions. Legislation became a matter of congressional oversight and regulation was placed under the jurisdiction of a federal agency, the SEC.

As it turns out, due to a lack of focus or agenda, the Government wasn't able to fulfill this regulatory role. Congress didn't even pass a federal statute for the incorporation of companies. Hence, regulatory gaps were gradually being filled by the states. Over time, the SEC was limited to regulating disclosure policies and monitoring cases of corporate fraud, outsourcing the judgment of specific decisions to state courts.

On the subject of takeovers, the episode is quite illustrative. Until the 60s, the mechanism used to acquire control of an American company was through proxy contests, used as a tool to change the board of the target company. Since the Securities Act of 1934 the system of proxies was primarily regulated by the SEC and federal courts.

From the mid-60's onwards, hostile takeover disputes gradually replaced proxies as the preferred tool for change of control. Hostile takeovers were less costly, quicker and allowed offerors to avoid facing the board of the target company, negotiating directly with shareholders. However they were also often abusive. Announced over the weekend, practically devoid of relevant information and with a punitive incentive structure for shareholders which were late in joining the proposed deal, they became known as *Saturday Night Special*. In this context, Congress passed the Williams Act in 1968, imposing significant disclosure rules and procedures to be followed by offerors, eliminating the possibility of proposals that require abrupt decisions by shareholders. The new law, in principle sought to ensure greater protection for shareholders and establish a principle of neutrality between bidders and executives. But in practice it did not impose any limitation on the actions of the directors of the target companies, not even on how to respond to offers or resist them. In explaining the new legislation, Senator Harrison Williams' view was that the primary concern was with "corporate raiders" and "white collar pirates", which were "assaulting proud old companies"[2]. The law's intention was to avoid abusive actions by acquirers, but it failed to restrain the behavior of executives.

Given this lack of interest from Congress and the Supreme Court, the issue of antitakeover defenses fell naturally to state courts. As Delaware was, and continues to be, the state with the largest number of incorporated companies, the behavior of the directors became subject to Delaware's law through the decisions of its courts under the fiduciary principles of common law, applied on a case by case basis.

Thus, with the possibility of self-regulation practically banished from the scene and the very discreet regulatory action by the SEC, the most important deliberations on the subject of takeovers in the United States were delegated to the judges of Delaware. In this line of argument, it was the judicialization of the U.S. takeover regulation that enabled a predominantly pro-management tendency. In common law systems, the body of laws is formed from the accumulation of precedents, that is, based on previous decisions of the judges on specific cases *(stare decisis)*. However this process of the build-up of precedents is neces-

1 *Bebchuk, L. e Ferrel, A. (1999) Federalism and Takeover Law: The Race to Protect Managers From Takeovers.*

2 *Armour, J. and Skeel Jr, D. (2006).*

sarily reactive, since the judges can only rule cases that come before their court. The profile of precedents is then influenced by the ability or desire of parties to face certain litigation matters. Thus, in a system of common law, the decision to litigate acts as a natural filter of evolution, directing the content of judicial processes.

In the case of takeovers, clearly the participants most willing to litigate are the executives. Not only because they have their reputation at stake, since a defeat in the legal process may lead to a depreciation of their human capital (as the management team will probably be replaced), but also by the fact that, by being able to access corporate resources, they have the greatest financial capacity (deep pockets). Thus, directors tend to pay more to establish agreements in cases that may be unfavorable to them and tend to aggressively defend themselves when the disputes reach the courts. From the point of view of the offeror, the possibility exists that by getting the court to remove the company's defenses, a more aggressive bidder may take advantage of such an outcome. In this case, the first bidder's effort was in vain, which worsens the payoff of the ex-ante decision to litigate from the standpoint of a potential acquirer. This imbalance ensures a higher recurrence of executives in courts.

In the absence of a U.S. federal law that forces a tender offer for the acquisition of control, judges came to rule on the actions of directors solely in light of the principles of common law. In this sense, the doctrine of "fiduciary duty" became a "rule" of regular judicial review. When pursuing the goal of maximizing the economic profit of the company, directors and executives make risky decisions. In order to preserve them from personal responsibility of any wrong decisions and at the same time enable them to act with initiative to achieve the corporate purposes for the benefit of all shareholders, U.S. law assumes that directors act under the presumption of the fiduciary duties of loyalty and diligence. Under this assumption, the directors must act well-informed, in good faith and defending the best interests of the companies', under the standard of conduct known as the 'business judgment rule'.

Conceptually, for the courts of Delaware, the directors must exercise their fiduciary duties in defending the interests of shareholders, who elected them. Implicit in this understanding, there is a presumption that the directors, as specialists, are better qualified to make technical decisions in the interest of the company. If eventually this is not the case, the shareholders would have the prerogative to replace them at the next general assembly, at the end of their one year mandate. Therefore, from Delaware's point of view, it is as if the officers had the custody of corporate decisions and shareholders the final word on the fate of the executives hired by them[3].

3 *The widespread practice of staggered boards subverted this balance of power. In this case, executives continue with the custody of decisions and shareholders need much more time and effort to reassume control of the majority of the board. Hence, staggered boards became the most powerful weapon in the arsenal of anti-takeover defenses (Bebchuk, 2002).*

Based on these principles, the jurisprudence of Delaware was constructed from cases brought to court. In the case of *Unocal Corp. x Mesa Petroleum* Co., Delaware Supreme Court (DSC) for the first time acknowledged that in theory the board "may be acting primarily in its own interests rather than those of the corporation and its shareholders"[4]. The hostile offer creates a situation of a *potential* conflict, which led the court to create a new criterion for judging – *reasonableness*[5]. If directors can prove with a reasonable argument that the hostile bid is of a coercive nature, constituting a threat to its corporate values, it may take appropriate defensive actions, shielding itself under the protection of the business judgment rule. In *Moran* x *Household Int'l, Inc.* DSC first approved the use of a poison pill as an ex-ante defense. The bidders appealed the decision, but Delaware refused to scrap the defenses, alleging that the presence of the pills was raising the initial value of the offers, benefiting shareholders. Since then, the poison pill became the main defense mechanism in US.

After these decisions, Delaware Chancery Court (DCC) has cultivated a jurisprudence limiting the use of defensive tactics, arguing that shareholders should be protected not only from coercive offers, but also from exaggerated defensive tactics. In the case of *AC Acquisitions Corp. x Anderson, Clayton, Co* DCC concluded that the actions of the board of the target company were unfair and therefore unreasonable. In *City Capital Associates Inc.* x *Interco,* the Chancery forced the board to remove the poison pill considering that the bid was not abusive. In the same year it was DSC's turn to take an analogous decision in another case (*Grand Metropolitan Public Co x The Pillsbury* Co).

Jurisprudence seems to have taken a different path from *Paramount x Time* case, where the DSC endorsed the desire of directors to not let Time's shareholders vote in favor of a more favorable financial transaction with Paramount, preferring a merger with Warner, arguing that the "culture", the "objective", the "needs" and the company's business plan would be threatened (Friedlander 2008). For the first time, DSC ruled that the use of defensive tactics would not be limited to situations of coercive offers, allowing directors a wide room for maneuver. Some people interpreted it as a substantial change, but "without much justification" and with "little support in the literature, at the time or since"[6].

Thus, in US, the regulation of takeovers is under the jurisdiction of the courts and regulators. The offer itself is overseen by the SEC that monitors their execution and transparency. The actions of board members, which have discretionary power to

4 *Unocal, 493 A.2d at 954.*

5 *This situation reminds us of the discussion on material x formal conflict of our corporate law, which we had the opportunity to comment on in Dynamo Report No. 68.*

6 *Cfr Bebchuck, L. e Ferrel, A. (1999) Federalism and Takeover Law: The race to protect managers from takeovers.*

reject the offer, are regulated primarily by state courts, predominantly by judges from Delaware Chancery Court, in addition to the Supreme Court. The courts have come to play a major role in decisions about takeovers due to the gap left by the lack of a specific legislation. General principles of conduct derived from the concept of fiduciary duty applied to cases brought to courts molded the caselaw of Delaware. The higher recurrence of executives in suits, and perhaps their converging interests with the states, helps explain the bias pro-management. If the core of decisions in Delaware, based on the doctrine of fiduciary duties, was to grant complete freedom to executives, sometimes, as we saw above, both the Chancery and the Supreme Court issued decisions contrary to the interests of these directors. Therefore, we need a third support point to built a coherent plane of argument.

Politics

Political arguments help explain this apparent ambiguity. In this interpretation, Delaware is balanced between two forces: the fear of losing an important part of their tax revenue from charters and the fear of a federal "intervention", which in practice would mean transferring the axis of the corporate-legal production of state jurisprudence to federal regulators (Roe 1994, 2005, 2009). When an issue of the capital markets becomes relevant (e.g., corporate scandals), Washington (Sarbanes Oxley) becomes the protagonist of legal frameworks. As Washington has broader interests, the main agents of Delaware prefer that issues be resolved in the courts of the state and not gain national ramifications. Thus, Delaware moved towards a more anti-takeover stance as politicians of the state believed that its market share of incorporations could be threatened. On the other hand, it signaled with more pro-shareholder decisions at times when the subject of takeovers became more politically prominent and under threat of intervention from Washington[7].

As we mentioned above, the three lines of argument that seek to explain this unprecedented autonomy of U.S. executives do not seem mutually exclusive, but rather complementary. An example of this is another argument of political content that ends up reinforcing the interpretation of the "incentives". The history of the U.S. capital markets in the last century shows that public policy, perhaps as a reflection of the country's public opinion, was to induce a fragmentation of financial institutions. An explicit intervention from Washington in order to maintain capital structure dispersed, preventing large financial institutions from playing a relevant role in corporate businesses and relevance in governance agenda. In the words of Roe (1994): "Politicians never allowed financial institutions to become powerful enough to control the operating companies."

This political decision eventually caused an unintended consequence: the virtual ban of institutional investors from U.S. capital markets, allowing the directors of large companies to make their interests prevail. That is, this populist impetus behind legislation imposed severe restrictions on the possibility of a coordinated action of these investors, producing the side effect of considerable autonomy to executives at the expense of shareholders. Only in the '90s, when the doctrine of Delaware was already consolidated, institutional investors emerged as important actors in the battle for corporate governance. Thus, an ingredient of political spin (the choice towards financial fragmentation) has produced an unintended consequence (lack of institutional investors), eventually paving the way for the alignment of interests of executives and state agents, reinforcing the first line of argument on the incentives.

Distinct and correlated factors connect themselves to explain a puzzling enigma. Why the United States, where capital is more fragmented and, in theory, investor more protected, on the subject of takeovers, produced regulatory decisions that tend to preserve the interests of directors? We saw that elements of institutional and political nature allowed certain actors - executives and state officials - to dominate the regulatory agenda. The result was a legalism that extends the timeframe of the deals and a pro management bias decisions, which contrasts with the recommendations of corporate governance best practices handbooks.

In the next Report, we will cross the Atlantic to examine the British model, also a reference for developed capital markets.

Rio de Janeiro, 28th December 2011

DYNAMO COUGAR x IBX x IBOVESPA
Performance up to November/2011 (in R$)

Period	Dynamo Cougar	IBX médio	Ibovespa médio
60 months	129,9%	43,1%	36,8%
36 months	127,7%	59,9%	55,2%
24 months	35,6%	-8,9%	-15,0%
12 months	6,4%	-9,9%	-15,8%
Year to date	4,0%	-12,4%	-17,5%

NAV/Share on November 30th = R$ 313,674962190

7 *Kahan and Rock (2005) see a more harmonious relationship between Delaware and the federal government (Washington), coexisting in a symbiotic federalism. Although Delaware is threatened by Washington, it also benefits from federal actions in areas in which the state authority can't effectively act.*

DYNAMO COUGAR x FGV-100 x IBOVESPA
(Performance – Percentage Change in US$ dollars)

Period	DYNAMO COUGAR* Year	DYNAMO COUGAR* Since 01/09/93	FGV-100** Year	FGV-100** Since 01/09/93	IBOVESPA*** Year	IBOVESPA*** Since 01/09/93
1993	38,8%	38,8%	9,1%	9,1%	11,1%	11,1%
1994	245,6%	379,5%	165,3%	189,3%	58,6%	76,2%
1995	-3,6%	362,2%	-35,1%	87,9%	-13,5%	52,5%
1996	53,6%	609,8%	6,6%	100,3%	53,2%	133,6%
1997	-6,2%	565,5%	-4,1%	92,0%	34,4%	213,8%
1998	-19,1%	438,1%	-31,5%	31,5%	-38,4%	93,3%
1999	104,6%	1.001,2%	116,5%	184,7%	69,5%	227,6%
2000	3,0%	1.034,5%	-2,6%	177,2%	-18,1%	168,3%
2001	-6,4%	962,4%	-8,8%	152,7%	-24,0%	104,0%
2002	-7,9%	878,9%	-24,2%	91,7%	-46,0%	10,1%
2003	93,9%	1.798,5%	145,2%	369,9%	141,0%	165,4%
2004	64,4%	3.020,2%	45,0%	581,2%	28,2%	240,2%
2005	41,2%	4.305,5%	30,8%	790,7%	44,1%	390,2%
2006	49,8%	6.498,3%	43,2%	1.175,8%	46,4%	617,7%
2007	59,7%	10.436,6%	68,4%	2.048,7%	73,4%	1.144,6%
2008	-47,1%	5.470,1%	-50,1%	973,3%	-55,5%	453,7%
2009	143,7%	13.472,6%	151,9%	2.603,3%	144,0%	1.250,7%
2010	28,1%	17.282,0%	15,2%	3.013,2%	6,2%	1.334,5%

2011	DYNAMO COUGAR* Month	DYNAMO COUGAR* Year to date	FGV-100** Month	FGV-100** Year to date	IBOVESPA*** Month	IBOVESPA*** Year to date
JAN	-4,8%	-4,8%	-2,2%	-2,2%	-4,0%	-4,0%
FEV	2,9%	-2,0%	0,3%	-1,9%	1,3%	-2,8%
MAR	7,7%	5,6%	4,1%	2,2%	4,0%	1,1%
ABR	3,4%	9,1%	2,6%	4,8%	-0,2%	0,9%
MAI	0,4%	9,6%	-0,8%	3,9%	-3,1%	-2,3%
JUN	-0,5%	9,0%	-2,3%	1,5%	-1,9%	-4,1%
JUL	-3,7%	4,9%	-5,0%	-3,6%	-5,6%	-9,5%
AGO	-3,1%	1,6%	-4,4%	-7,8%	-6,1%	-15,0%
SET	-15,0%	-13,6%	-19,4%	-25,8%	-19,9%	-31,9%
OUT	17,4%	1,5%	20,6%	-10,5%	22,5%	-16,6%
NOV	-5,8%	-4,4%	-9,8%	-19,2%	-8,9%	-24,1%

Average Net Asset Value for Dynamo Cougar (Last 12 months): R$ 1.507.196.846,00

(*) 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

DYNAMO

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

PRINTED IN RECYCLED PAPER