Report
DYNAMO 57
JAN FEB MAR 2008

In Natura

When Natura went public in May 2004, it launched the longest and most successful IPO cycle in Brazil's capital market history. Since then, no less than 108 such transactions have mobilized resources of approximately R$86.7 billion.

Today, we realize that Natura's deal was a defining event. In those days, something far from obvious. The company had the courage to test a market not used to pay 'high multiples'. By offering an excellent business, together with a unique corporate reputation, under very fair by-laws rules, Natura inaugurated a new standard of risk perception for equity investments in Brazil, breaking up paradigms long established.

Not even the presence of innovative statutory clauses of protection against change in control (poison pills) neither the exclusively secondary sale of shares, seemed to bring any kind of discomfort to investors. Their trust in the business, in the controlling shareholders, and in the Novo Mercado protection rules guaranteed its unequivocal success: the offering book was covered several times, the valuation implied multiples significantly higher than those negotiated in our market, the Company's post-deal liquidity was very high, and the stock kept on rising, rewarding those investors who early believed in the fundamentals of the business and in the reasons that motivated the offering.

Having just celebrated its fourth anniversary as a public company, we can say that Natura already made history in the capital markets. The aim of this Letter is to take a closer look at this route, as observers of important events in the Brazilian equity market and even more, in this particular case, as current shareholders of the company.

Natura in the Market

Despite its short existence, Natura's life as a publicly traded company has been intense, and it has already experienced that the mood of the market is the one of a volatile fragrance. Evaluations of the Company leapt from enthusiasm to disappointment and from trust to doubt. The story of Natura's share price can be divided into two distinct phases: the first, from the IPO through November 2006, when it increased by almost 300%. Even in the context of Bovespa's outstanding performance during this period, Natura's was most impressive. The Company dramatically outperformed the *Ibovespa* and the *IBX* by 90% and 64%, respectively (see Chart I).

Throughout these first two and a half years, Natura consistently dumbfounded the analysts with its higher than estimated results and became a favorite pick in its peer group. Every quarter, analysts celebrated the virtues of the Company and its business performance. An unprecedented combination of the Company's ability to innovate, the consumer acknowledgment of its brand, and the power of its direct sales channel, as it steadily advanced over a continually growing cosmetics market segment.

The last quarter of 2006 was the first time the Company reported disappointing results. Ebitda dropped 9% in relation to the same quarter of the previous year, while the market continued anticipating growth along the lines of the historic average of almost 25%. The explanation fell on a poorly executed one-off discount policy. However, the subsequent quarters bore out the trend to deceleration of the growth in operating results, a reflection of the Consultants' slower sales and decreased productivity.

Analysts were swift to blame increased competition for this decline, hinting at a hitherto unknown reduced growth and compressed margin scenario. Meanwhile, the market heavily discounted the share price based on this new perception. The stock dropped up to 50% of its peak quotation. The mood of the researches turned to cautions or even to some skepticism. This reflects an old capital market maxim: when stock loses momentum, the company loses enchantment. The harshness of the market's censure becomes further exposed if we recall that *Bovespa* appreciated by almost 50%. In other words, relatively speaking, Natura shares dropped by close to 60% during this period (Chart I).

As discussed in our Letter No. 41, Dynamo took part in Natura´s IPO. As occurred with others investors, we received

Chart I - Stock or Index Performance

	may.04 to nov.06	nov.06 to mar.08
Natura	296%	-38,9%
IBX	142%	49,4%
Ibovespa	109%	47,3%
Natura/IBX	63,6%	-59,1%
Natura/IBV	89,9%	-58,6%

Source: Dynamo. Data: Economática

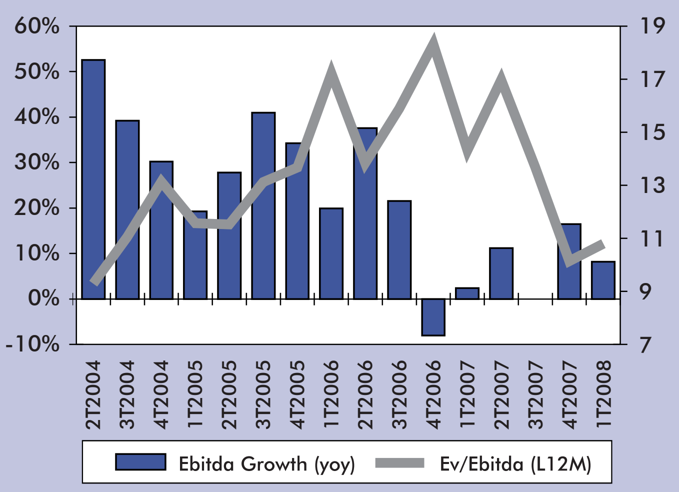
a lower than expected allocation. Over time, we managed to increase our position in the Company, but acknowledge that we never reached the point of holding a particularly substantial investment. We remained hostages to our own circumspection, bound by prudence to resist paying up-front for growth that, in our experience, always encounters unforeseen impediments to be confirmed. In a business environment as uncertain as ours, paying up front for growth has all too frequently proven to be either an unfavorable financial payoff proposition or, at the very least, one of high risk. And, thus, having exceeded the limits we set for ourselves as reasonable, we sold our stake considerably before the generalized elation that drove the shares to their historic peak.

Chart II - Ebitda - R$ Million

	2004	2005	2006	2007
Initial coverage reports average projections (A)	393	471	537	611
Natura - Reported (B)	432	568	654	702
(B)/(A)	10%	21%	22%	15%

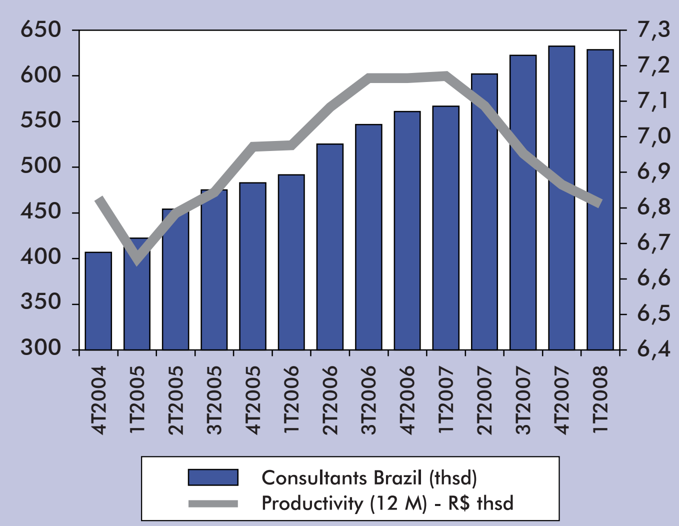
Source: Natura, Itaú, UBS, Pactual

Graph I
Ebitda Growth (yoy) x Ev/Ebitda (L12M)



Source: Natura's Quarterly Reports

Graph II
Sales Force x Productivity



Source: Natura's Annual Reports

We kept monitoring Natura, its controlling shareholders, and executives, all with continuing admiration. We were particularly frustrated at having brought such a small gain of Natura's success in the capital market to our investors. But, what is done is done. We believed we knew this Company and frequently asked ourselves if and where we had "made a mistake". The fact is that, with the benefit of hindsight, we perceived that market enthusiasm at the time was somewhat overstated, something that occurred frequently with other IPOs. There was no way we could have identified sound reasons to justify the fact that the stock quadrupled in price over a mere thirty months. We even searched for remote clues in the initial covering reports of coordinators banks that could possibly ratify investor expectations at this time of few references for valuation. But, even there, we were unable to unearth any data that could possibly justify price increases of such order. The Company's actual results over the years after it went public were not excessively underestimated by these good quality researches (see Chart II).

Besides that, even those forecasts were soon reviewed upwards, bringing market expectations to levels significantly closer to the results already reported by the company in 2005 and 2006. In other words, although Natura's operating performance was very interesting after the IPO, this in itself, could not explain the unprecedented acceleration in its share price.

If fundamentals hesitate, psychology tries to suggest an explanation of some kind. It could have been a case of the known heuristic trap of anchoring decisions on more obvious events, in this case, recent results. In less critical analyses, the outstanding performance over the last quarters, including expanding margins and growing market share, were being transferred to future years at the same gradient of growth.

Let us now examine graphs I and II, as a case of illustration.

In the first graph (Graph I), we compare Natura's operating result (Ebitda) with its multiple negotiated in the market (Ev/Ebitda). It is interesting to note that, for the period in which the multiple doubles, leaving the IPO at 9x until attaining the 18x peak, operating results record consistently high annual rates of growth (between 20% and 40%). This exceptional stock price performance coincides with the expansion of the sales force and increased productivity of the channel that reached its peak during the opening quarter of 2007 (Graph II). Since then, with the channel's drop in productivity, the market implies that Natura's virtuous cycle is coming to an end. And here begins an accentuated contraction of multiples reverting to post-IPO levels.

This movement of multiples contraction is typical of growth stocks. The rationale is that, in these companies, stock prices basically reflect the present value of the cash flows in the perpetuity. The reason behind is that in a process of accelerated growth, the company is re-investing its internal cash generation in the expansion of its business. In other words, nearer cash flows are sacrificed during the effort to grow, deferring over time the cash value of the company to shareholders. In this case, when the assumption of future growth is under threat, the perpetuity value shrinks at a compound rate, thereby absorbing a major portion of the company's value.

In our opinion, Natura should not be classified as a typical growth stock. In addition to its substantial growth, the company also records extremely high returns on invested capital (ROIC). This very exceptional combination merits special analytical treatment, which is not always recognized by the analysts. Natura's ROIC before taxes is around 60%, one of the highest returns among Brazilian public companies and the largest among the main companies related to domestic consumption. (Chart III).

Furthermore, this rate has remained steady at high levels (ranging from 41% to 53%), sharply dissociated from the huge swings of the company's stock price (Graph III).

Natura's unique ROIC level is a rare combination of high operating margins allied to a low need for investments. The Company is able to grow at double-digit rates and to generate a significant free cash flow. In other words, its future growth requirements are met by committing only a small proportion of the funds generated by its operating activities. Company's value is distributed in a more balanced manner over time. Year after year, shareholders are able to cash value and depend less on distant and remote premises regarding perpetuity parameters.

For example, someone who invested in Natura's IPO became shareholder in a company whose market value at the time was R$3.1 billion. Holding his position, by the close of 2007, this same investor was in a company whose operating results increased by 62%, paying out dividends of R$1.1 billion –, without raising its level of indebtedness. In other words, even growing in a fair compound rate, Natura was able to return to its shareholders 35% of the initial amount invested.

We believe that the market has over-penalized the Company, regarding it as a standard case of not delivering the expected future growth ("g" adjustment). The resilience of Natura's returns reflects the quality of its business model, for which it deserves better treatment. Accordingly, we saw through this market overreaction an excellent opportunity to become Natura's shareholders again, and this time, with a more substantial investment.

We are aware that Natura is currently undergoing an internal transformation at a time when the competitive environment has shown itself to be particularly aggressive, and this led to a period of results below expectations. This is a case of a combination of important challenges, but which are not sufficiently severe to raise doubts about the quality and probability of the medium and long-term success of the company's business model. The truth is that it was this very "slip" of the Company that enabled us to acquire an outstanding business, valued as a medium one. Let us now examine some of its more interesting features.

The Business

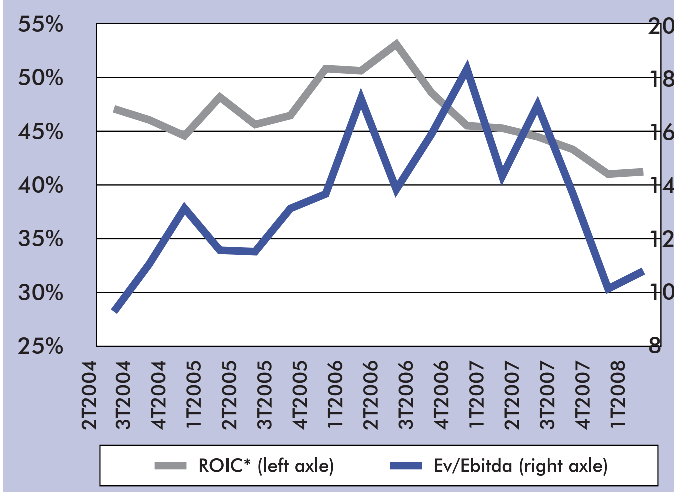
For the last five years, Natura's chief target market, the cosmetics segment, has grown at a real rate of 11.3%pa. This segment is expanding at GDP multiples, geared by increased domestic income. Researches indicate a growing number of consumers entering the market annually, in addition to a higher market share of cosmetics expenses (share of wallet) in the ag-

Chart III- ROIC - Return on Invested Capital (base 2007)(1)

Natura	61%
Lojas Renner	35%
Lojas Americanas (2)	32%
Ambev	23%
B2W	18%
Sadia	16%
Perdigão	14%
Pão de Açúcar	14%

(1) ROIC = EBIT (earnings before interest and tax)/Invested Capital (PPE + working capital)
(2) Considering only the traditional retail business
Source: Dynamo

Graph III – ROIC e Ev/Ebitda (L12M)



(*) ROIC – after tax
Source: Dynamo

gregate household consumption. This movement shows a standard pattern in affluent societies: cosmetics are no longer regarded as superfluous products but rather as goods incorporated to consumers' habits.

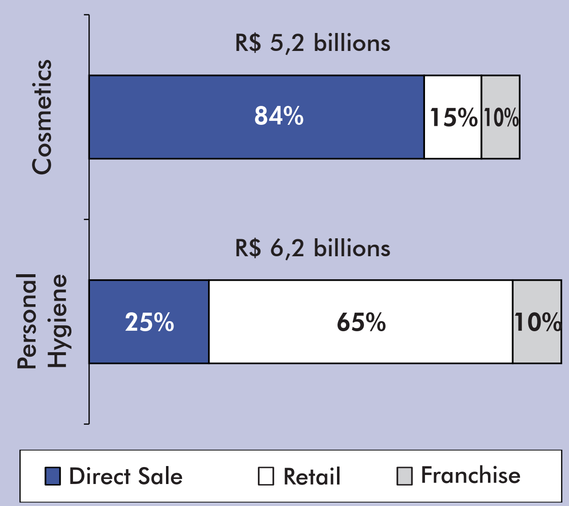
Natura has grown revenues by $25\%^{pa}$ since 2002, gaining market share and becoming a cosmetics and personal hygiene sector leader. Its operating success is based on a well-known triple foundation: product, brand, and distribution channel.

In our opinion, the Company's sales force is both its chief asset and its main market entry barrier. There are currently close to 630 thousand Consultants selling Natura products all over Brazil. The main feature of forming a direct sales channel is its long learning curve and a complicated administration system. It is not a tangible asset traded in the market neither one that can be rapidly replicated. The formation of a direct sales channel is usually organic, experimental, lengthy, and difficult, especially for those with no channel management technology, i.e., the highly sophisticated technology of people management. Proof of this is that only Avon has a network on a scale comparable to that of Natura, with close to one million consultants.

Unlike the majority of personal hygiene products, a major feature of the sale of cosmetics is its vital consulting element. It is no coincidence that the Brazilian direct sales model has become its main distribution channel. Although the franchise system has also gained significant space, such as the indisputably success of Boticário and some rapidly growing pharmacy networks (an example being Drogasil), the fact is that, in Brazil, retail sales still play a secondary role.

In addition to the assistance given at the time of sale, we recognize other inherent advantages in the direct sales model over traditional retailing: i) it provides an instant answer on the acceptability of products to the end consumer and adjusts the

Graph IV
Distribution Channels (2006)



Source: Natura, Avon, Dynamo estimations

sales force in time, ii) it aids in calibrating the innovation effort, by accelerating the natural filter of product selection, iii) it enables a capillary and speedy expansion at reduced investment levels (for example, there is no capex to opening stores), iv) it offers the possibility of carrying out experiments that are controlled, localized, and that does not require major marketing, training, and logistics expenses.

An important ally to the sales force is the company's innovation policy. Natura's R&D area continuously feeds new products supply, which, unquestionably drives the channel. In fact, it was the development of new lines such as *Ekos* and *Todo Dia* that enabled Natura to so rapidly increase its share in personal hygiene and beauty segments, a rare achievement to a direct sales company. Yearly, the Company allocates between 3% and 4% of net revenue to its R&D area and, thanks to its robust growth over the last few years, R&D resources have grown significantly. Since the development cycle is relatively long, around two years from conceptual product definition to its inclusion in the sales catalogue, we understand that, over the next few years, we are likely to see a new wave of launches. Here, it is important to note that we are not referring to the annual volume of product launches, which the Company intends to reduce, but to their quality and impact. We would not be surprised at all, in fact, we are counting on it, that productivity by consultant will increase again with the advent of new blockbuster lines.

To finalize the tripod, we have Natura's brand name whose optimum consumer acceptance arises from a set of beliefs and values held by the Company since its inception. Even in the early nineteen-nineties when it was not "fashionable" to mention a corporate *raison d'être*, Natura had already defined itself as a company whose actions strove for the "importance of relationships, a commitment to the truth, continuous improvement, encouraging diversity, searching for beauty free of preconceived ideas and manipulation", promoting "social enrichment". Words such as these could easily just reflect the temptation of banal rhetoric. Not in Natura's case. All the Company's business action is closely linked to sustainable development, to care for biodiversity, to improving social and environmental indicators, and to fostering well-being/being well. Thus, sales are a process of "personal relationship", products are "instruments for perfecting the human being", and, intrinsic to the Company brand is its "aspirational value" unique proposal.

In our last two letters, we discussed the proposition that financial markets as well as companies could be regarded as Complex Adaptive Systems. Here, we can extend the concept and analyze Natura using this framework. In this particular case, such a focus seems appropriate. Let us see. The essence of Natura's business is based on a capillary personal relationships network, between Promoters and Consultants and, even more importantly, between the Consultants and their customers. As we have seen, it is this entanglement of thousands of decentralized interactions that sustains the entire system, and drives the involvement of all other agents (suppliers, local communities, researchers, executives, etc). It is this disseminated relationship base that defines the sales channel's vitality. From there come the best responses about the correctness of the product launches. It is this highly dispersed and widespread base that supplies accurate information on the judgment of the work involved in innovation, development, and marketing. Thus, when the base shows robust growth, with high Consultant productivity, this is the sign (emergent property) that the positive feedback mechanism is functioning in harmony. The system expands, strengthening each link in the chain, in a virtuous circle. For example, with increased revenues, more money can be deployed on product development and marketing, thereby reinforcing the brand name and allowing the launch of differentiated products. At this time, channel's productivity increases, enhancing Natura's Consultants value proposition. The better this proposition the greater the channel's growth and, accordingly, its sales, and then another cycle begins.

Alternatively, when the channel grows at a lower rate than its target market and/or less robustly (decreased productivity), this is a glitch in the normal flow of information into the system. Either the suggested value proposition for product conception is not reaching the base with sufficient vigor, or the base's own response is not being immediately incorporated into the product development process. The system gives off a loss of robustness indicating an absence of coordination, which must be remedied.

One of the reasons for this less than optimum performance could be that the network design is faulty. In Brazil, for example, every single commercial management member (Promoter) is responsible for a "sector" of almost 600 Consultants. Since "sector" maintenance costs are predominantly fixed, the greater the number of Consultants per Promoter, the more diluted the expenses, and, thus the greater the operating margins. On the other hand, operating leverage has a limit, above which the same Promoter cannot satisfactorily handle each of her Consultants. Fully aware of this dilemma, since 2004, Natura has been testing a new design for the channel. This would include the Consultora Natura Orientadora (CNO), somewhere between the Promoter and the Consultants. The idea would be to delegate to this CNO both the back office duties, i.e., daily Consultant tasks, such as delays, exchanges, and collections, and responsibility for recruiting new Consultants. With this policy in place, the Promoters will focus exclusively on training and on promoting new launches, both activities of higher strategic value. The rollout of this project will occur over the next eighteen months. The expectation here is to improve the service to Consultants, and this should reinvigorate the channel and, also kick-start a more robust expansion.

Moreover, as in the case of any open system, external factors also impact the dynamics of the business model. In this case, we could expect an increase in competition, a natural outcome in a business with high margins and promising growth. Over a six-year period (2000 to 2005) Avon lost market share to Natura. As part of its global restructuring, in 2006, Avon introduced a significantly aggressive strategy in Brazil. The focus concentrated on a bolder discount policy and on a startling increase in advertising expenses, making the annual publicity budget increase by three times over the last two years.

Many saw this policy as a reaction to Natura's global expansion program. The aim was to retaliate in the domestic market, region responsible for generating the cash to finance the overseas expansion project. The fact of the matter was that Natura was unable to identify a rapid solution to counteract its chief competition's strategy. Natura lost share, Avon lost margin, and the consumer turned out winning. Recently, Avon announced new guidelines at the global level targeting to recover its margins and to tie up the sales expenses to revenues growth. This would also appear to be the blueprint for the Brazilian operation, mostly because the domestic market is the company's second largest source of revenues and, most probably, the major contribution to its operating results.

Furthermore, the corporate design created in 2006 to support the increase in international activities comprised a policy for recruiting executives from key positions in the Brazilian operation. This reshuffling of talent undoubtedly impacted the company's management equilibrium as a whole. In this context, recently, we have noted a more hands-on approach by the founding partners to the day-to-day management activity of the Company, a prudent step that we welcome. The path to increased professionalism for a company with a successful business history is usually critical and often somewhat ambivalent: if this renewal brings opportunities, it also implies discontinuity. When it coincides with a tougher

Our Performance

In this first quarter, Dynamo Cougar shares decreased in value by 3.0%. *Ibovespa* dropped 5.2% and the *IBX* went down 7.6%. Over the last ten years, the Fund has recorded a return of 22.8%*pa* in *IGP-M* and 29.5%*pa* in US dollars. During this same period, the *Ibovespa* appreciated by 6.8%*pa* over the *IGP-M* and 12.7%*pa* over the US dollar and the *IBX* 12.6%*pa* and 18.8%*pa*, respectively.

Markets have suffered from the effects of the US financial system crisis. New losses reported by financial institutions and misgivings that US economic activity was cooling down, led to a synchronized drop in stock exchanges worldwide. In US dollar terms, SPX US, Euro Stoxx, and SPX Asia went down 9.9%, 10.6%, and 10.5%, respectively.

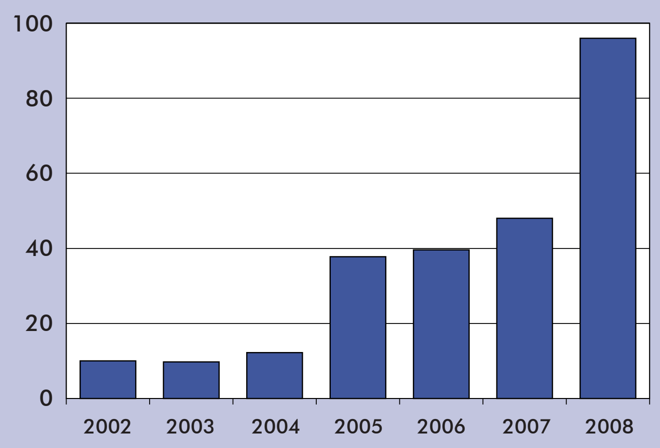
The *Ibovespa* shrank by 'only' 4.6% in US dollar terms, as the Brazilian *Real* kept on appreciating. Dynamo Cougar resisted a bit more, due to the relatively good performance of some important positions, such as Gerdau, Pão de Açúcar, and Natura. A higher level of cash, revenues from rents of stocks, and the use of financial mechanisms of portfolio protection all together contributed to minimizing the impact of the negative performance of most of our investments in this period.

Running against the equity market tide, economic indicators continued to perform well. Industry occupation soared competitive environment, it becomes even more fragile. In such circumstances, the most beneficial approach would be to revert to the original aims to subsequently resume the process in a securer and calmer environment. And this seems to be what is happening.

From what we gleaned from our conversations with the Company, it would seem that Natura has already identified the problems that led to shrinking results over the last quarters and remedial actions are already in place. The chief of these are: i) an improved logistics structure with the construction of new distribution centers, ii) greater focus on cost controls and productivity gain, via freezing overheads and a commitment to targeting disclosed efficiency goals, iii) narrowing down the product portfolio by streamlining industrial production and picking stages, in addition to simplifying the sales catalogue, iv) upgrading the product development process, to immediately respond to actions of competitors and to the needs of the channel, v) implementing the new sales channel format with the advent of the CNOs, vi) the opening of Casas Natura, and vii) reviewing the global expansion strategy, limiting action outside Latin America to France and the US.

Further to this matter, the topic of growing abroad seems to be misunderstood by the investor community. Before we close, this matter merits a brief discussion.

Graph V – Natura Capex International Operations (R$ Million)



Source: Natura's IPO Prospect and Annual Reports

International Expansion

Over the last few years, Natura has directed growing resources to financing its international project. The Company has direct sales in six Latin American countries and a flagship store in Paris. Plans are in motion to enter the US market this year. Due to the fact that the majority of these operations are still losing money, analysts and investors in general tend to view this venture with mistrust and skepticism.

So, we decided to carry out some *in loco* research. We visited some of these operations and shall return to them shortly. The aim here was to become more familiar with the business and to obtain insights to aid us in judging their probabilities of success. We visited the Argentine, Peruvian, Chilean, and Mexican offices where we spoke to the executives responsible for each unit. We had two basic questions: i) Why, after so many years, are these operations still relatively small and unprofitable? ii) What were the motives leading to such confidence in a more promising future to justify growing investments?

Natura's globalization process was conceived in the early nineteen eighties, when a local cosmetics distributor negotiated a sales agreement to commercialize the Company's products in Chile. In the mid nineteen nineties, a more structured Latin American plan begun with the opening of the Peruvian and Argentine subsidiaries in 1994, and the purchase of a Chilean distributor in 1995. Over the last three years, Natura has inaugurated a store in Paris, in addition to offices in Mexico, Colombia, and Venezuela.

Our tour through the Latin American offices clearly underlined the problems inherent to beginning a direct sales company from scratch, in areas where the products and brand are completely unknown. What in Brazil is regarded as consolidated competitive advantages and barrier against the entry of new competition are transformed into obstacles during the long and painful process of forming a channel. The virtue of the model inverts: a little known brand produces a low proposition value for the Consultant that, in turn, hampers the channel's growth capacity. Moreover, the Consultants' high turnover, typical of the

Our Performance

to historic levels during the quarter. A number of segments reported double-digit growth. Formal jobs, tax collection, industrial confidence indices, domestic income, among other indicators, increased by over 5% as compared with the same quarter last year. In this scenario, the perspectives for the companies of our portfolio exposed to domestic consumption are especially promising. Some of them were able to increase prices during the quarter, an unusual step, since traditionally, at this time of the year, the trend is seasonally towards a slower economic activity. Here, it would not even be over optimistic to expect significant growth in these companies' operating income throughout the year.

Over the last twelve months, we noted a change in the portfolio profile, in which some new investments appeared as intermediary and smaller positions. These are small caps companies that we have been monitoring for some considerable time, some even since prior to going public. Recently, the strong market correction - several companies in this group dropped by up to 30% - gave us the opportunity to buy with a good safety margin. As soon as they attain the target percentage in the portfolio, we shall discuss the fundamentals of these investments.

initial stages of forming a sales network, culminates in the loss of a significant percentage of the training expenses incurred.

The scale of the channel is another vital matter. As we have seen, the channel only becomes profitable after reaching a certain size. To attain this break-even point, investments in the network are needed but not at any price. If the network grows too fast, this could lead to excessively low Consultant productivity. There is a clear growth/profitability trade off, which should be balanced. In other words, a too rapid expansion at the beginning of the channel's existence does not necessarily guarantee the best NPV for the project.

With this dynamic, the start-up of Natura's operations in Latin America was particularly difficult. This was due to the fact that, at the time, the Company had insufficient funds to back-up these activities at the speed needed to attain financial self-sufficiency. However, once the difficulties of this critical growth stage are overcome, i.e., when the brand becomes well-known and the network more productive, the virtuous circle described earlier begins: the business reaches cruising speed, the channel moves (expands) easily. This is exactly what is now happening in the Argentine, Peruvian, and Chilean operations, where volumes are growing at over 50%*pa* with no apparent likelihood of cooling down.

Over the last few years, we have observed another round of investments with the opening of new overseas offices, geared by the Brazilian operation's strong cash position. There was even talk of entering remote markets such as Russia and India. However, the deceleration experienced in Brazil was enough to put the brakes on this expansionist wave, making management to announce only one new operation in the US.

We have our doubts regarding the probability of success for the US operation, the world's most competitive market, where we believe that the direct sales model hold reduced appeal. However, we regard the Company's decision to face this challenge as a real option with a limited cost (premium) in an important market. The idea is to allocate a given volume of resources (close to R$40 million in 2008) to test the success of the model and acceptance of the products. If the results are satisfactory, the option will be exercised, i.e., the growth plan and investment levels will be accelerated.

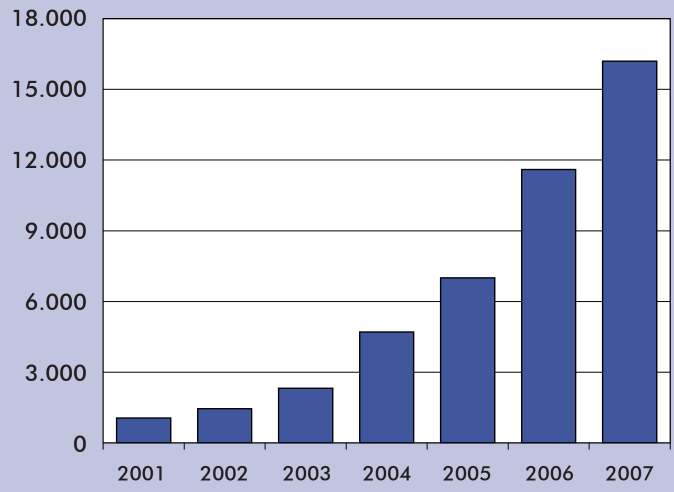
We remain cautiously optimistic about the Mexican, Colombian, and Venezuelan operations. Given the size of its market, the Mexican operation's performance will be crucial. In all these markets, direct sales are showing high vitality. We believe that Natura has all the assets (people, brand, and product) and the expertise required to successfully replicate its business models in these countries, as was the case in Argentina, Chile, and Peru.

The Future

As we pointed out above, the ventures aimed at recuperating the Consultants' growth and productivity are already being implemented. Obviously their success is uncertain and conditional to a number of factors, some of them beyond the Company's will, as, for example, the performance of the target market and of the competitive environment. The effects can also impact financial statements with delay, since, typically, adjustments in processes usually require a longer feedback time. However, we believe that we are not paying up front for this. Today, Natura negotiates at a free cash flow level of approximately 8.5%. From what we have seen above, it would make sense to treat the negative Ebitda on international operations as an investment in forming the channel. If we return this amount in an analysis of normalized capex, this level increases to 10%.

In our view, a free cash flow yield of this order represents a reasonable carrying for an implicit option to growth with fundamentals as interesting as those of Natura.

Graph VI – Natura Argentina, Chile and Peru: Total Amount of Products Saled (thsd)



Source: Natura's IPO Prospect and Annual Reports

Dynamo Cougar x IBX x Ibovespa
Performance up to march/2008 (in R$)

Period	Dynamo Cougar	IBX médio	Ibovespa médio
60 months	428,09%	493,27%	436,69%
36 months	121,42%	146,36%	127,86%
24 months	53,43%	63,80%	60,11%
12 months	22,05%	34,29%	33,01%
3 months	-2,97%	-7,58%	-5,26%

NAV/Share on March 31rd = R$ 188,670750678

Dynamo Cougar x Ibovespa x FGV-100
(Performance – Percentage Change 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	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
2002	-	-7,86	878,90	-	-24,15	91,67	-	-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
1stQuar/07	9,67	9,67	7.136,29	10,07	10,07	1.304,32	6,72	6,72	665,84
2ndQuar/07	29,34	41,85	9.259,40	28,84	41,81	1.709,26	27,19	35,73	874,08
3rdQuar/07	7,46	52,43	9.957,63	15,72	64,10	1.993,66	16,39	57,98	1.033,74
4thQuar/07	4,76	59,69	10.436,57	2,63	68,42	2.048,71	9,78	73,43	1.144,60
1stQuar/08	-1,74	-1,74	10.253,11	2,63	68,42	2.048,71	9,78	73,43	1.144,60

Average Net Asset Value for Dynamo Cougar (Last 36 months): R$ 807.774.020,23

(*) 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

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 mecanism of insurance.

DYNAMO

DYNAMO ADMINISTRAÇÃO DE RECURSOS LTDA.
Av. Ataulfo de Paiva, 1351 / 7° andar. Leblon. 22440-031. Rio. RJ. Brazil. Phone: (55 21) 2512-9394. Fax: (55 21) 2512-5720