

# The order and disorder of merit

## *An introduction to the topic*

Cambridge Dictionary: meritocracy is a social system, society, or organization in which people have power because of their abilities, not because of their money or social position.

Merriam-Webster: it is a system in which the talented are chosen or make progress according to their achievements.

Oxford Dictionary: it is a social system where people obtain power or money according to their abilities.

MacMillan Dictionary: it is a system or society in which people have influence or status according to their abilities and achievements, not because of their social class.

Collins Dictionary: it is a society or social system in which people obtain status or rewards because of what they do and not because of their heritage or social status.

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It is impossible to go through all the definitions above without finding them as intuitive as they are redundant. However, a closer inspection shows that there is some vagueness: What kind of skills? What sort of achievements? Who judges such 'achievements'?

Meritocracy, one of the most epidemic paradigms in contemporary capitalist corporate life, should perhaps be understood for what it is not, rather than for what it actually is. And it is not what it should no longer be in fact: patrimonialist favoritism, backscratching, which, for a long time would provide shortcuts for those who needed work opportunities to get a start in their careers.

In a country with the strange characteristic of having once been a colony, which became home to the colonizer's Court (the one and only case in the world), a proximity to power has always been the source of further power regardless of anything else. For a long period in Brazil's history, we were used to the maxim that being a courtier is the best *curriculum vitae* one could wish for. Such a wayward practice has left some scars. Raymundo Faoro (1979), in his classic book *Os Donos do Poder*<sup>1</sup> (The Owners of Power), had already predicted the countless problems that modernizing liberalism would have in Brazil, where the State's hypertrophy is present from its very founding moment.

Perhaps, young people may find it exotic to use the play on words associated with the acronym IQ<sup>2</sup>. In Brazil, the term is often used not to refer to intelligence, but rather to the position held by the person recommending somebody for a position. That was exactly how job offers used to work here. Not long ago, roughly mid-20th century, the pursuit of results imposed by free market competition set the stage for the innovative tune of the meritocratic melody.

Please, allow me a minor digression: in Brazil, curiously, it was in the public sector where the presence of backwardness and modernity revealed its utmost expressions from the outset. The so-called political nominations for important positions in Ministries and state-owned companies have been rampant since those institutions were first established. It was heaven for those with no merit but had a lineage. Brazil's authoritarian

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<sup>1</sup> As usual, complete bibliographic references are available on our website in the 'library' menu, <https://www.dynamo.com.br/pt/biblioteca>.

<sup>2</sup> IQ stands for QI, in Brazilian Portuguese. It is jokingly used as a short form of 'quem indica': he who appoints somebody to a job. (T.N.)

presidentialism, as well as subsequent coalition presidentialism, has dedicated increased enthusiasm to signing up teams of civil servants as a mere arrangement of conveniences within the political game. No merit at all. Exchanging positions in the government for electoral support was akin to the sharpness of mugging in broad daylight where everything is in plain sight, but nobody does a thing. Gradually, a moralizing reaction has been growing to fight the debacle. Little by little, at the speed of an icebreaker in an Arctic winter, widely-known civil service exams emerged (the first known exam took place in the late 1930s), a radical measure to fight privilege in those days. Once the absolute specific knowledge had been verified and pertinent qualifications had been assessed, a citizen would be admitted to open positions.

Largely due to the new recruitment method, it was possible to build institutions of recognized competence, such as the Brazilian Central Bank, Banco do Brasil, the Brazilian Development Bank (BNDES), the Brazilian State Department (Itamaraty), the Brazilian Agricultural Research Corporation (Embrapa), the Oswaldo Cruz Foundation (Fiocruz), and top-performing companies, such as Petrobras, Vale, Embraer, and Eletrobrás. In the hallways of these organizations, the status of 'civil servant' became equivalent to saying, 'I am here on the grounds of merit'. On the one hand, civil service exams represent the reform that raised merit to the same level of criteria for becoming a prime minister. On the other hand, the counter-reform was quick to follow suit. Under the debatable preface of reputed confidence or knowledge, executive positions, which do not require successful candidates to pass a civil service exam, were created. In addition, 'job security' was granted, that is, it takes merit just to pass a civil service exam, not to keep one's position. From this overlap of merits and demerits, we have been left with three types: a group of civil servants who lost merit after taking up the job, but who have managed to keep their positions; a group of civil servants who have climbed the hierarchical ladder for their achievements (those who do the work everybody else in the office should be doing, we owe them all the good things we get from the government); and the non-civil-servant group who we are better off not referring to at all. In short: in Brazil's public sector, there is atrophied meritocracy and infiltrated kakistocracy cohabiting to this day. Such extravagance has led us to the current state of affairs. It has led us to an unsustainable situation. End of digression.

We know full well that transformation happened quickly and strongly in the private sector. The gradual

dissolution of founder businesses in the United States, which were turned into corporations, where the idea of any undeserved favor was frowned upon, may have been the turning point. The emergence of partnerships, particularly in the financial market (similarly, we could also mention law firms), greatly accelerated this process. Partners holding significant quotas would only be allowed to hire people on the grounds of competence. Otherwise, the game of personal referrals would affect any chance of success in such a competitive environment.

Given how successful that model is, especially in companies that founded the first investment banks, it quickly spread to almost all economic sectors. Similar to the hurdle race, where it is easy to spot the winner – the one who finishes first by deftly springing over the hurdles –, assessing merit fostered precision: it was enough to establish detailed individual goals and, then, check who could perform as expected. Actually, to merely identify those who could surpass such goals. Meeting goals is an expression that has definitively been incorporated into the professional life of almost all qualified workers. Such a trend has become so strong that there is demand for people to show skilled performance even before joining the labor market. University qualifications are now the first step in one's professional journey. Earning a major at a 'top ten' university and taking a graduate course at a 'top five' university have become benchmarks of qualities that point to a successful professional future.

The recognition of merit and the design of incentives define behaviors and relationships. They are fundamental elements to understand how societies, governments, companies, associations, agencies, and any type of collective organization work. We also consider, of course, asset managers. In an industry where money is an input and, the output, in theory, is more money, the opening question in this text seems to have an uncomplicated answer: skill is the ability to make money. Achievement is how much, during a certain period, each person has been able to make or contribute to make that happen. There are money winners, money losers, and those who swing from one category to the other. Evolution of this species is due to permanence of (and reward to) the most profitable. Before analyzing how societal habits on this planet revolve around the solar star of merit – with more applicable references to Dynamo's case –, let us look at some history.

The etymology of meritocracy is recent, but not very honorable. In 1958, sociologist Michael Young, who invented the word meritocracy, wrote the book

'The Rise of Meritocracy' (1994) – which does not pay homage to meritocracy as the book's title might suggest. It is, rather, a warning. The book tells the story of a futuristic dystopia designed for 21<sup>st</sup>-century England and takes place in the year 2034. In the book, meritocracy characterizes a new aristocracy based not on heredity and titles, but on tests of intelligence and personal effort. Recognizing the advances such a system would bring to social life, Young wanted to warn people, precisely, that meritocracy's cloak of legitimacy would end up concealing profound injustices stemming from free market capitalism, which people should oppose. Proposed by socialists to dissolve the privileges of the patrimonialist elite, the regime in the fable presented by sociologist Young ends up creating a rigid caste system. The State uses universal tests – a kind of higher-level scientific SAT – to promote the lineage of meritocrats, which account for a tiny fraction of the population. Most English citizens are driven to demoralization, poverty, and marginalization. They have no voice and are unable to make demands. How can one protest against the idea that the most talented and hardworking people should be the ones in power? Most people are just left with resigned submission or conformism.

Ironies of history: Michael Young's neologism, coined as a critical name for creating an elite of the most capable people, so conspicuous among current capitalist practices, ends up being used as an expression of virtue and the word is highly celebrated by his followers. Conceived to be derogatory, the term invented by sociologist Young ended up seeing its meaning turned into an object of admiration and prestige. However, who could imagine that, more than 60 years later, we would hear sharp and increasingly resounding echoes of Young's nefarious prophecy. But, let us address that later in this Letter, patient reader. For now, we shall keep to the historic chronology we promised.

The idea that worth and aptitude should be parameters to promote citizens dates way back. Eugenics of the Spartans was a kind of perverse meritocracy. Instead of promoting the best people, the military oligarchy discarded the unfit. Perhaps, the overemphasis on eliminating people 'without merit' to ensure strict discipline explains how irrelevant the Spartan contribution to the history of philosophy and the arts is. And, it might also explain how successful exclusive education for the most capable, geared toward military preparation, and glorified in the Peloponnesian War. Sparta encouraged a constant mindset of competition. Therefore, it is a Western world pioneer for acknowledging expertise as a

criterion for social ascension. But, throughout the history of our civilization, it was Athens, with its benign meritocracy, that provided us with rules and regiment. Pericles, the statesman of Athens' extraordinary Golden Age, in a famous speech explained that 'when it comes to appointing one person instead of another to a position of public responsibility, what matters is not belonging to a particular class, but the true ability the appointed man has' (Gottlieb, 2016). Plato (1980) wanted philosopher kings capable of climbing the stairs that led to perfect Forms to rule his utopian Republic. But they would be recruited among the virtuous to rise high; they would never be recruited from powerful or wealthy families. In this context, virtue means wisdom, balance, diplomacy, military training, scientific knowledge, experience in politics and public administration. His belief in meritocracy was so willed that, despite showing undeniable traces of misogyny, Plato admitted that women capable of demonstrating such qualities should be able to go as far in the hierarchy of the Republic as any man. He stated that in the 4<sup>th</sup> century BCE.

Empedocles, a pre-Socratic thinker is another important ancestor for the concept of 'fair discrimination', implicit in recognizing people's ingenuity. Empedocles also realized that species are subjected to natural selection due to their ability to adapt to environmental conditions where they live. Empedocles set forth the principle of natural abilities. He regards Nature as a ruthless and fair arbiter, capable of judging the ability of each living being to prevail (Gottlieb, *ibidem*). Two thousand three hundred years later, Charles Darwin and Alfred Wallace provided scientific content to the theory of evolution based on a common ancestor. Darwinism has become a recurring and sophisticated metaphor for meritocrats, even in the narrowest definition of meritocracy, which simply refers to survival of the fittest.

Fast forward: wholesome attempts to reward skills in the Greek world were defeated by the Roman Empire's brazen patrimonialism. During the Middle Ages, there is no change – things may have even gotten worse – within the fragmented world of enclaves of power. The Renaissance gave rise to humanism, which allowed the complete reinvention of individuals throughout the Enlightenment, the matrix that led to the creation of modern liberal thought.

Moving from human passion to individual interests, so well described by Albert Hirschman (1979) in his classic book, gives way to, as of the 17<sup>th</sup> century, a new way of understanding the production and exchange of goods. Scottish Enlightenment, which had

great influence over intellectual growth at the time, is manifested through countless extraordinary thinkers. However, it was Adam Smith who set forth the anatomy of the emerging regime. An invisible hand organizes the relationship between supply and demand of goods in an openly competitive market. Each agent's particular advantages would allow (or not) their success in achieving wealth and material comfort. Curiously and with a sensitivity shown only by great intellectuals, Smith realized that there are two different worlds at that moment of transition from a pre-capitalist economy to full capitalism. In his beautiful 'Theory of Moral Sentiments', he points out that, for people in lower classes, success can only be achieved with exhausting work and talent. However, for the upper classes, being born is enough to be granted privileges automatically with no requirements. Smith firmly believed that, in the future, the market mechanisms described in his other book, 'An Inquiry into the Nature of Causes of the Wealth of Nations', would account for such visible dysfunctional disparity. The moment of transition from old patrimonialist vices of a class that would quickly become obsolete to the much fairer, progressive and productive dynamics of social gears, is so perfectly furnished that it is worthwhile to provide you, curious reader, with a long quote from the book.

*'In the middling and inferior stations of life, the road to virtue and that to fortune, to such fortune, at least, as men in such stations can reasonably expect to acquire, are, happily in most cases, very nearly the same. In all the middling and inferior professions, real and solid professional abilities, joined to prudent, just, firm, and temperate conduct, can very seldom fail of success. (...) In the superior stations of life the case is unhappily not always the same. In the courts of princes, in the drawing-rooms of the great, where success and preferment depend, not upon the esteem of intelligent and well-informed equals, but upon the fanciful and foolish favour of ignorant, presumptuous, and proud superiors; flattery and falsehood too often prevail over merit and abilities.'* Reading further on: *'There is another set of qualities ascribed to the actions and conduct of mankind, distinct from their propriety or impropriety, their decency or ungracefulness, and which are the objects of a distinct species of approbation and disapprobation. These are Merit and Demerit, the qualities of deserving reward, and of deserving punishment.'*

The dawn of capitalism had already pointed towards inevitable transformation: if people were to compete and triumph, what would actually matter is

their performance, not one's family tree. Those who were bound by privilege inherited from the previous system would perish with melancholy glory along with those very privileges. A kind of Tax Island Ball<sup>3</sup> that celebrated patrimonialism, and which is foreseen in many of the between-the-line messages in 'Smithian' works.

Smith realized the revolution would emerge from the underground-like magma of the new mode of production sooner or later. Dominant classes at the time were granted birth rights based on race, caste, or station. They abused the unmerited privileges that allowed them to accumulate unjustified advantages. They would have to be – as they were – replaced. But it would still take some time for the aristocracy of the *ancien régime* to slowly give way to meritocracy, enunciated early – or rather, conspired – in late 18<sup>th</sup> century progressive texts as a desirable principle for renewing power even in mercantile-based societies.

It is upon the emergence of the first companies in a more advanced stage of the capitalist regime in the 19<sup>th</sup> century, but especially in the 20<sup>th</sup> century, that the market fully takes over the merchandise exchange system. As a result of relentless focus on the best performance, which in turn, rules over the rise and fall of enterprises, the basic design for doling out jobs in companies started to change for good.

Currently, meritocrats (still) rightly celebrate replacing the patrimonialist scheme with a status achievement through effort and talent. By the way, this is achieved democratically through the means available, in theory, to anyone who can show such virtues (it is important to underscore 'in theory', we will return to this issue later). In the meritocratic world, a Quality Man or Woman is the one who 'makes things happen', who registers 'achievements' and is handsomely rewarded for what they achieve. Together, they comprise the group of those who set an example for the others. Moreover, they work for the good of all people, because capitalist development moves at the pace of proficiency, not complacency with the idle, according to the classic proposition by Torsten Veblen (2009). Aristocrats are just born, but meritocrats have to prove themselves; they need to excel in the grueling struggle to reveal

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3 The island became famous as the Baile da Ilha Fiscal, a luxurious ball, hosted there just six days prior to a coup d'état that ousted Brazil's Emperor Dom Pedro II and set the stage for the proclamation of the Republic in Brazil on the 15th of November 1889. (T.N.)

their skills. By doing so, they determine the direction of what we have best in our civilizing process.

In addition to the benefits to human organizations in general, recognizing specific competences regardless of who has them, drives the desired social mobility, breaking up the elite cloisters of favoritism. We breathe the pure air of the democratic ideal of equal opportunities for all citizens. Nowadays, in theory (it is recommended to underscore 'in theory'), once an individual works hard to get what he wants, he succeeds. One's will is power. Dreaming big is the magic compass in such navigation. Education has never been so accessible, and even the most exclusive schools and universities, which previously only admitted young, white, Christian men – and even within this group, people were selected according to their family background –, have started to recruit students based on academic performance. It is important to highlight that such a change is quite recent and only actually happened in the United States, the birthplace of meritocracy, in mid-20<sup>th</sup> century. This was when James Bryant Conant at Harvard and Kingman Brewster in Yale, in a transformative gesture, created new admission rules in these Universities, which broke the historic pact of traditional American families with Ivy League Universities. Since then, admission processes in places such as Harvard, Yale, Princeton, and Stanford (where future champions of merit emerged) have been intensified. Over the last 20 years alone, competition to get a spot at these universities has increased over 500 percent.

A new and healthy elite is underway. It is one made up of those who triumph, who surpass goals, who cause awe and create extraordinary wealth for themselves and for others based on their own abilities. Such an elite is organized around two movements. First, by setting up an educational path in a structure similar to a highly disputed tournament. Second, by transforming work into an extremely arduous activity, but one that disproportionately rewards people and creates financial power for its members. Harvard Business Review calls these new positions 'extreme employment': a job that usually involves staying at work for at least 10 hours a day, traveling often, being available to clients 24/7, and attending work-related events on the weekend. Undoubtedly, it is an unprecedented accumulation of responsibilities for one person. An outstanding education, physical fitness, talent, and monumental effort are the hallmarks of a career that goes from the Earth to the Meritocratic Olympus.

Victory against an archaic patrimonialist system represents a great social advance. Democratically revealed skills of this newly highlighted station, combined with an inexhaustible willingness to work, have toppled any seemingly opposition to the new regime. Lining up those at the top and those who settle closer to production furnaces in this fashion has constituted yet another achievement of progress and improvement in social life. Such achievement is pragmatically unquestionable and apparently irreversible. It is not the power of he who is the fittest or he who comes from a wealthy family, but rather the power of the most capable. All of this seemed like a prodigious and definitive statement. Until...

First, a quick and introductory analogy. In early 1990s, Francis Fukuyama (2006) wrote the famous book *The End of History and the Last Man* where he predicted that after the demise of the Soviet Union in the Cold War, liberal democracy would become universal. Therefore, it meant that, history itself was over, not a historical period, especially from the point of view of ideological evolution of human society. The linear progress predicted by Hegel and Marx for our civilizing journey would reach its pinnacle from which no retreat is possible, given the superiority of this form of government and social organization. There are echoes of Winston Churchill's famous 'boutade' describing democracy as always imperfect, but never outdone. Was it the end of history? No, definitely not.

Taking into account the due and obvious proportions, with the noteworthy predominance of meritocracy in the entire spectrum of capitalist organizations, something similar happened. The option to build structures for higher positions in the hierarchy of any institution, through exclusive recognition of merit demonstrated in work, became an indisputable theorem – unparalleled by any other conceivable design. The final evolutionary stage of various forms of the so-called corporate cultures. From this point on, local adaptations could be considered; however, the fundamental paradigm would remain unchanged. Right? Wrong.

Who would have predicted that, even at the beginning of this century, we would witness meritocracy coming under a ferocious and increasingly intense attack. Fossilized in books, such as *The Meritocracy Trap* by Daniel Markovits (2019), Law professor at Yale University, and *The Tyranny of Merit* by Harvard professor Michael J. Sandel (2020) but echoed in numerous articles and seminars (academic or not), criticism came from several directions.

Remember, dear reader, this text is only introductory. That is why we are only going to deliver a brief account on the main content of such criticism. Perhaps, in a future not too far from now, in another Report, we may resume discussion on the subject in a more analytical fashion.

Criticism dubbed 'aspirational' suggests that meritocracy, instead of revoking previous oligarchy privileges, has merely replaced it with another, although relatively more accessible – one for those who have the resources to take the refined paths of education. Attending the best (and always the most expensive) schools and universities is the root of great skills that are going to be shown and requested at a later stage. There are also extracurricular programs offering complementary training courses and access to environments where sophisticated information is available. The most qualified job offers are cataloged on the walls of renowned universities. Recent corruption scandals for admission to American Ivy League Universities are an undeniable symptom of the problem. Declining rates of social mobility in the US are an even more serious indicator. Overall, critics in this category highlight the fact that we are moving from a market economy to a market society. Everything is for sale in such a society, including the basic (and expensive) ingredients of the formula that produces heroes of merit. Thus, the outcome is an invigorated and strengthened aristocracy because it is notably more legitimate when compared to patrimonialist aristocracy, which preceded it. Still, according to critics, it remains an aristocracy. We are, therefore, increasingly removed from the democratic ideal that illuminated the meritocratic project at its onset.

Social criticism points out the emergence of a new type of eugenics. More subtle than the eugenics of the Spartan, of course, but still remarkable. We must focus on the base of the pyramid not its summit. Those who fail, those who do not get to the top, those who 'underperform' deserve nothing, which is what they get. They are those with no merit; those legitimately regarded as unnecessary and even disposable. Here, the contrast with the S in the ESG acronym (Environmental, Social and Governance) is striking. No doubt, a foretold confusion. In addition to discrimination against minority groups on the grounds of race, gender or color, there are people who are demoted on the grounds of 'merit', for their inability to attain reasonable achievements. They are demoted even though this population's issue is not exactly a lack of talent or effort, but rather

the fact that their background, from an early age, is notoriously unfavorable. Therefore, a phenomenon called *meritocratic hubris* has arisen. It is the tendency of those who land on the top to believe their success is due solely to their own work, that it simply mirrors their personal merit. Those who triumph usually have an undisguised ease at forgetting debts they owe to the Other<sup>4</sup>: family, teachers, colleagues, community, social environment. Factors that are absent from the lives of most people who are 'deservedly' left behind, in humiliating involuntary servitude. In this scenario, one sees the dangerous temptation of the tyranny of merit, which is explained so well by Michael Sandel in his aforementioned book.

Technical criticism argues that merit and chance are mixed in unfathomable doses in an individual's observed performance. Oftentimes, the positive or negative results a person gets is an unintended consequence of supporting actions unrelated to initial goals. And, as Machiavelli stated, there is always the Wheel of Fortune, the interference of luck. Luck, the illusionist for unprepared egos. Worse still is when such outcomes result from acts in bad faith. Plagiarism, insider trading, stealing ideas, unfair competition and so on. Measurement by results is imperfect and conceals a lot of pollution under the crystalline recognition of merit. Meritocracy, even though it is a good idea, is prone to defects that arise in its day-to-day use. Much less than open criticism, perhaps, it is an attempt at preaching reform.

Moral criticism strikes us as the most profound and significant. It highlights the radical individualism that meritocracy entails. Merit is always a relative measure and, if everyone is mediocre, it is easier to stand out. So, let us not forget: one's ambition has some cunning ways to destroy the other's talent. No wonder we have grown used to fierce expressions (echoing the eugenics of Spartan) in those environments. Killer instinct, cutthroat competition, bite the bullet, knife between one's teeth, a blood-thirsty will to win. This kind of mindset destroys one of the most important slogans of social life, which is cooperation<sup>5</sup>. Game theory, despite

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4 Regarding meritocratic hubris, it is worth mentioning the philosopher Martin Buber and the thinker Antônio Luiz Seabra, who have helped us further understand the issue. For a better understanding of Seabra's existential reach, we suggest his recent interview with Pedreira (2020), available at [https://youtu.be/b9Zzl\\_gRZuw](https://youtu.be/b9Zzl_gRZuw).

5 No one better than the philosopher John Rawls to state the importance of cooperation as a basic structural element in a healthy society. For further information, refer to Rawls (1971).

its relative and regrettable stagnation, lavishly revealed that cooperation can always be more socially productive than individual action, but that the selfish incentive of a free rider significantly reduces the chances of achieving it [cf. Axelrod (1984) and Buchanan & Tullock (1962)]. Collective action and meritocracy hold a dangerous and often reprehensible tension<sup>6</sup>. The hypertrophy of the latter in regard to the former is the basis for erosion of contemporary democratic systems and political life at large. There is a wave of frustration and outrage against the meritocratic elite who seem to look with merciless indifference at less fortunate people, less 'accredited' people when compared to those belonging to the meritocratic elite. Not to mention the lack of solidarity and closeness between people in contemporary communities, increasingly less community-centered.

As the title of this Report puts it, here we are only attempting a general approach to the most current discussion regarding meritocratic systems. For this very reason, in addition to what is stated herein, possible developments of this Report should most interest our readers. There is vast and well-known literature on the indisputable achievement of transitioning from backward patrimonialism to the prevalence of merit in modernity. It was not by chance that it became capitalist organizations' hegemonic regime – to this day. At a moment when disputes strongly arise, the issue is going to become more significant.

For those who are curious about the details, the next course of action may be to learn more about the criticism we have introduced herein. Almost all of them are already backed by empirical research and statistical data. There is also an exchange of persuasive arguments against and in favor of what they set forth. It is too early to talk about a paradigm shift, which will only happen when a new model systematically proves to be superior to the previous one. If that is even possible. At the moment, the debate on the subject is interesting, but inconclusive. For now, the discussion is much more

<sup>6</sup> It would be fitting in this part of the text to develop the argument by applying it not to large social groups, but to the microeconomics of smaller organizations, such as Dynamo. We are not following that course of action now as it would abruptly change the axis of this narrative, which is focused on more aggregated phenomena. This footnote is going to be available in the main text of an upcoming Report targeted at the same topic, but with a different focus. However, we warn you in advance that there is an abundant bibliography underscoring the advantages of cooperation vis a vis competition based on individual highlights. The problem is how one can achieve it (cooperation) in an environment such as that of the financial market, where, overall and with conviction, talent is rewarded and people showing slow performance are left behind.

focused on the American case. Still, it is a projection of what we will have to deal with here. That is why, we have been discussing for a while and studying this topic of great interest for both today's Dynamo and (hoping to deserve it) the Dynamo of the future.

Another stimulating aspect stems from the perception that, despite the radical individualism promoted by meritocratic appeals, since the mid-20<sup>th</sup> century, there has been increased organization of the collective movement. Currently, groups advocating for identity, environmental and social principles, animal rights and many others, illustrate this counterflow, which has several theoretical tenets. One of them, which we are particularly familiar with, is the theory of collective action, which emerged within liberal thought in the early second half of the 20<sup>th</sup> century, starting with Olson (1971). Despite having occupied very little space outside academia, this theory proves to be very rich in possibilities for alternative or at least revisionist models in relation to meritocracy. Its overlap with ESG's postulates seems obvious and productive. Its intellectual influence, as a moderator of individualism's possessive impulses, creates exciting possibilities for those doing research on new organizational architectures.

One of the outcomes of combining these apparently diverging trends, which, however, have started to converge, is the noticeable change in the sociology of work in technology companies. On the one hand, they unwaveringly recognize individual competencies. Yet, on the other, they have included several insertions in their cultural design to take advantage of the

### *Dynamo Cougar x IBX x Ibovespa Performance up to October 2020 (in R\$)*

Period	Dynamo Cougar	IBX	Ibovespa
<b>60 months</b>	166.4%	108.6%	104.8%
<b>36 months</b>	86.9%	29.1%	25.6%
<b>24 months</b>	72.7%	11.7%	8.1%
<b>12 months</b>	24.3%	-12.0%	-13.3%
<b>Year to date</b>	5.7%	-17.9%	-18.8%

NAV/Share on October 31 = R\$ 1,405.166503600

# DYNAMO COUGAR x IBOVESPA

(Percentual de Rentabilidade em US\$)

Period	DYNAMO COUGAR*		IBOVESPA**	
	Year	Since Sep 1, 1993	Year	Since Sep 1, 1993
1993	38.8%	38.8%	7.7%	7.7%
1994	245.6%	379.5%	62.6%	75.1%
1995	-3.6%	362.2%	-14.0%	50.5%
1996	53.6%	609.8%	53.2%	130.6%
1997	-6.2%	565.5%	34.7%	210.6%
1998	-19.1%	438.1%	-38.5%	91.0%
1999	104.6%	1,001.2%	70.2%	224.9%
2000	3.0%	1,034.5%	-18.3%	165.4%
2001	-6.4%	962.4%	-25.0%	99.0%
2002	-7.9%	878.9%	-45.5%	8.5%
2003	93.9%	1,798.5%	141.3%	161.8%
2004	64.4%	3,020.2%	28.2%	235.7%
2005	41.2%	4,305.5%	44.8%	386.1%
2006	49.8%	6,498.3%	45.5%	607.5%
2007	59.7%	10,436.6%	73.4%	1,126.8%
2008	-47.1%	5,470.1%	-55.4%	446.5%
2009	143.7%	13,472.6%	145.2%	1,239.9%
2010	28.1%	17,282.0%	5.6%	1,331.8%
2011	-4.4%	16,514.5%	-27.3%	929.1%
2012	14.0%	18,844.6%	-1.4%	914.5%
2013	-7.3%	17,456.8%	-26.3%	647.9%
2014	-6.0%	16,401.5%	-14.4%	540.4%
2015	-23.3%	12,560.8%	-41.0%	277.6%
2016	42.4%	17,926.4%	66.5%	528.6%
2017	25.8%	22,574.0%	25.0%	685.6%
2018	-8.9%	20,567.8%	-1.8%	671.5%
2019	53.2%	31,570.4%	26.5%	875.9%

2020	DYNAMO COUGAR*		IBOVESPA**	
	Month	Year	Month	Year
JAN	-0.1%	-0.1%	-7.1%	-7.1%
FEB	-13.0%	-13.0%	-13.1%	-19.3%
MAR	-41.2%	-48.9%	-39.3%	-51.0%
APR	10.6%	-43.5%	5.6%	-48.3%
MAI	9.9%	-37.9%	8.6%	-43.9%
JUN	12.1%	-30.3%	7.8%	-39.5%
JUL	18.0%	-17.8%	13.9%	-31.1%
AUG	-3.5%	-20.7%	-8.2%	-36.7%
SEP	-5.4%	-25.1%	-7.0%	-41.1%
OCT	-1.3%	-26.1%	-3.6%	-43.2%

Average Net Asset Value for Dynamo Cougar  
(Last 12 months): R\$ 5,008.5 milhões

(\*) 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.

(\*\*) Ibovespa closing.

benefits that cooperation offers and that have resulted from interaction between members of the teams. Such insertions range from a certain level of informality in the office bringing people closer to selective fringe benefits, so results achieved by one person are also subordinated to everybody else's. Examining such an innovation in detail is mandatory for anyone who wants to follow the evolution of contemporary corporate culture standards.

In more than one hundred Dynamo Letters, we have repeatedly commented on fragments of our behavior in our daily work. From the beginning, Dynamo has intended to operate not only as a business, but also as a professional life project. We dare say we acknowledge the obvious importance of the order of merit. However, we always try to avoid its shortcomings and pitfalls, which, we believe, we managed to identify at an early stage. Collecting all these footprints that we have already presented in a newly integrated and updated format available in a new text is another thing the effervescence of the debate on meritocracy has compelled us to do.

At long last, dear reader, we hope this introduction to the subject stimulates you to read more texts on the topic as well as discussing it. And, with regard to our investors, we hope this Report may inspire future reports with even clearer records on the appropriate cultural traits we want Dynamo to have now and in the many years to come.

Rio de Janeiro, November 03, 2020.

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

[www.dynamo.com.br](http://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 mechanism of insurance.

**DYNAMO**

**DYNAMO ADMINISTRAÇÃO DE RECURSOS LTDA.**

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