

INVESTIDOR
PROFISSIONAL

Fund Report
IP-Value Brazil

fourth quarter / 2004

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SUMMARY

- 2004 marked the end of some important investments for IP-Value Brazil. In the PIPE category, we closed our investment in Café Iguaçú with a 497.5% appreciation. In the medium-liquidity category, we have sold most of our position in Perdigão with a 233.3% appreciation so far.
- We believe Coteminas and Saraiva, our most important investments, show good prospects for 2005. The first is starting to benefit from a price fall in its main raw material, and the end of the Multi-fiber quotas. The second has just gained important tax exemptions from the government, something that will significantly increase its profitability.
- After such strong asset appreciation as seen in the last two years, some companies are looking increasingly over-priced. We attribute the performance consistency obtained by IP-Value Brazil so far to a bottom-up value oriented approach to investments applied with unconditional discipline. Thus, we have stayed away from these stocks.

COMMENTARY

The change in market value of IP-Value Brazil's positions in December was 5.3% in dollar terms, net of all costs. Since February 26, 1993, the beginning of Investidor Professional's management, the Fund has accumulated an appreciation of 1,165.7% - equivalent to an annual return of 23.9% p.a. In the same period, the Ibovespa has registered a performance of 14.6% p.a. and the MSCI Emerging Markets, 6.9% p.a.

Fourth Quarter 2004 Results

We closed the year with a 28.1% appreciation, vis-à-vis a 28.2% appreciation for the Ibovespa and a 26.3% return for the MSCI Emerging Markets. As of December 31st 2004, IP-Value Brazil is 80% invested in stocks and 20% in US money markets. Throughout the year we have increased the Fund's protection from BRL devaluation, which is now at about 80% of portfolio. The portfolio is also partially hedged from an increase in Brazil risk as measured by the yield in the government's sovereign bonds.

It is always good to remember that the aim of IP-Value Brazil is to obtain high returns consistently in the long term - with a horizon of at least five years. In the table below, it can be seen that the Fund has achieved a satisfactory performance both in relative and absolute terms, within this time horizon.

	IP- Value Brazil	Ibovespa Average	MSCI Emerging Markets
2000	-1%	-18%	-31%
2001	-8%	-25%	-2%
2002	-26%	-45%	-6%
2003	88%	141%	56%
2004	28%	28%	26%
5-year cumulative figures	62%	3%	25%
Annualized return (5 years)	10%	1%	5%

2004 Investments Conclusions

2004 marked the end of the cycle for some of the Fund's important investments.

In the month of August, within the Fund's PIPE (Private Investment in Public Equity) category, we sold most of our position in Café Iguaçú (Third Quarter Management Report, 2004).

We started the investment in the company's stock in mid-1995. As is tradition in respect of the portfolio's long-term positions, we sought to maintain a closer relationship with Iguaçú's management; this included nominating members to the company's Board of Directors and Statutory Audit Committee. This work was carried out with a view to promoting appreciation of the position and enabling a sale at attractive prices.

In view of the considerable growth in the company's operations in 2002 and 2003, the book value of the stock came to reflect adequately the fair value we calculated for the company, based on its discounted cash-flow. In addition, we came to the conclusion that Iguaçú was unlikely to increase its interest in the capital market; so in February 2004 we started negotiations to sell our position to the controlling shareholder. In August, the negotiations were concluded with a public offer for acquisition at a price equivalent to the book value.

In the eight years of its investment in Iguaçú's stock, the Fund booked a return of 497.5%, equivalent to 22.4% p.a. Another typical case of Investidor Professional's investment and modus operandi, which significantly contribute to the success of IP-Value Brazil. The experience acquired in this case and in so many others should be a great differential for the fund's performance in the future. A significant part of the portfolio will continue being allocated to PIPEs. Saraiva and Dimed are the main investments in this category at present.

Another cycle closed in the course of the second semester of 2004 was the investment in Perdigão. We purchased a significant stake in the company in the first semester of 2003.

Perdigão, and the food sector in general in Brazil, have been through extremely positive changes after the devaluation of the Real. Brazilian producers increased their competitive cost advantages even further. With the world's lowest production cost for poultry, Brazil has practically tripled its exports since 1997.

Despite the positive evolution of its economic and corporate fundamentals (tag-along rights were granted to preferred shareholders) in the last few years, Perdigão's stock price was depressed due to the weak short-term results it presented.

The volatility of results is something absolutely normal in the food sector, due to its cyclical nature. It is essential to understand the nature of this volatility in order to take advantage of the market's distorted vision.

The food sector cycle has a short duration. During the cycle's trough, the company's profitability is very depressed, which is usually interpreted by the market as something permanent. IP-Value Brazil's focus is to analyze the level of the company's normalized long-term return.

Most of the shares were acquired at a market price that implied a long-term Ebitda Margin of about 7% (approximately US\$ 2.9 per share). This was far below what we conservatively believed to be the potential normalized long-term margin (around 12%).

As may be observed in the chart below, the cycle was short and margins rose sharply. The price of the stock, which was around US\$3.9 in the first semester of 2003, ended 2004 at US\$ 21.5.

Perdigão – Ebitda Margin



The conclusion of these investments greatly contributed to the performance booked in 2004. That is to say, we have sold most of these shares

Prospects

Our long-term positions, especially Saraiva and Coteminas, show prospects of good results for the next few years.

Coteminas is starting to benefit from the falling price scenario for cotton, its main raw material. In addition, with the end of the import quotas imposed by the Multi-fiber Agreement, export volumes should rise considerably. As the company already has sufficient physical installations to take on the expected growth, the investment needed should be marginal, making it possible to obtain an excellent return on the additional capital invested.

It must be remembered that a market opening of this kind can be expected to affect prices over time. However, we believe that this downward price movement should be gradual, and less significant than the market consensus.

Saraiva should benefit from the reduction to zero of the PIS, Pasep and Cofins contribution rates on book sales in Brazil.

The impact of this tax exemption on the results and the value of both Editora Saraiva and Livraria Saraiva is significant.

In absolute terms, Editora Saraiva's gain will be greater. This is because Editora operates with a higher Gross Margin (about 70%) and the Cofins contribution is charged on the added value, that is, the higher the Gross Margin, the more significant the Cofins is as a percentage of Gross Sales. In the case of Editora Saraiva, we estimate that the impact caused by this measure, assuming that the gain will not be passed on to prices and all other factors will remain constant, will amount to 29% growth in the EBITDA and 32% in the Net Profit projected for 2005.

In relative terms, the impact on Livraria Saraiva will be larger. The latter operates with narrower margins and we estimate that the tax gain will mean, all other factors remaining constant, a 35% rise in the EBITDA and 52% in the Profit projected for 2005.

Certainly, part of the tax exemption should be passed on to the consumer in the course of time – especially in those segments in which the company's competitive position is not dominant. However, this partial loss may be offset by the growth in demand due to lower prices.

Looking forward, we believe we will be able to maintain a good return on medium-term positions, such as Perdigão, which together with the natural price/value convergence of the Fund's long-term positions, will ensure returns that are consistent with our target yield.

DISCIPLINE AND CONSISTENCY

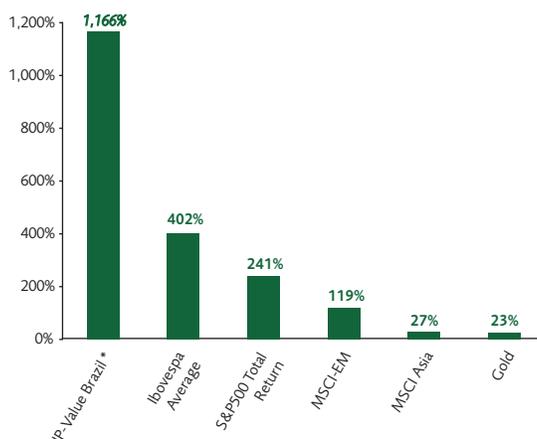
Since 1988, Investidor Profissional has followed an investment philosophy built on the foundations of a differentiated viewpoint regarding the stock market.

We believe the stock market alternates moments of euphoria and depression, fluctuating between periods of irrational fear and moments of disproportionate greed. These explosive emotional features cause stock prices to behave as if they were on a roller coaster. However, the value of a company, in the great majority of cases, fluctuates in a much less volatile manner than the humor of market players. The behavior of stock prices is directly related to the emotion of the moment, while companies' operating and strategic fundamentals are totally linked to rationality - to careful study of the evolution of and the prospects for the companies' critical variables.

IP's work consists of finding significant distortions between the fair value of companies and the prices at which they are being traded. Our mandate implies unconditional respect for companies' fundamentals. It also implies the discipline necessary to stick to the philosophy regardless of the trends, fads and manias that constantly appear.

The disciplined application of this value-oriented investment philosophy carries the largest share of responsibility for IP-Value Brazil's track record of consistent results.

Comparison of Accumulated Return (US\$)
(with selected assets, from February 26, 1993 to December 31, 2004)

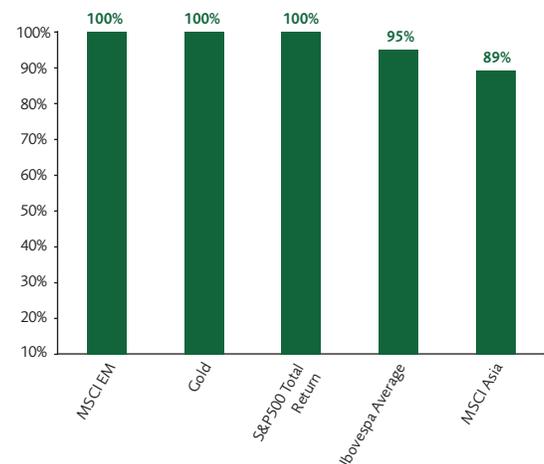


IP-Value Brazil

The rationality and the long-term orientation of the investment decisions enable the Fund to provide high, consistent returns.

In the chart below, we show the frequency with which IP-Value Brazil's return exceeded that of other investment alternatives, in every five-year period since the Fund was created. The fourth bar, for example, shows that in 95% of all five-year periods the Fund surpassed the Ibovespa index.

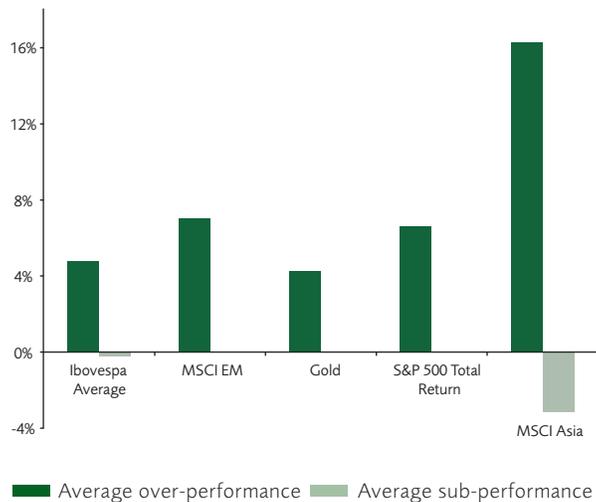
IP Value Brazil - Frequency of returns above other alternatives



As important as observing the frequency with which the Fund surpasses other alternatives is checking the magnitude of the gains it provides in relation to the different indices that serve as benchmarks for other investment strategies.

The next chart shows the average difference between IP-Value Brazil's return and that of each index, both in periods when the Fund did better and in periods when the Fund did worse than them. In the case of the Ibovespa, for example, at the times when the Fund did better than this index, it presented returns 4.8% higher on average, while at the times when the Fund was surpassed by the index, it recorded returns only 0.2% lower.

* IP-Value Brazil is an offshore version of IP-Participações, a long-only equities fund based in Brazil and managed by Investidor Profissional. Both funds hold the same positions, the only difference being cash, held in dollars for IP-Value Brazil and in reals for IP-Participações. Although IP-Participações had its inception in 02/26/1993, its offshore version was not created until 12/29/1995. For reference, we show IP-Participações performance in dollar terms for the period between 02/26/1993 and 12/29/1995. To make it easy to differentiate, every time we show an IP-Value Brazil performance number affected by IP-Participações' performance, it will be in italic.



Thus, by reading both charts, we may observe that:

- IP-Value Brazil consistently surpasses other investment alternatives.
- The additional gains obtained by IP-Value Brazil in the periods when it surpasses the indices are substantially greater than the differences in the return obtained in the periods when the indices surpass the Fund.

Investment opportunities have arisen at a significant rate in the course of these nearly 17 years. Obviously, there were moments in which there were more opportunities, and fewer in others. The great secret is to maintain discipline and patience.

IP's investment style may be compared to that of a tennis player who waits for his opponent's serve. With the big difference (and advantage on our side) that we can choose to hit back only when the ball arrives in a perfect position for our stroke. We do not lose points if we stand still. There is no penalty for sitting on a chair and waiting comfortably for the right opportunity. We can wait for the serve to arrive at the height we want, so that we can be sure of ourselves when we strike.

Adopting this strategy is not the easiest of tasks. Although the theory is simple, maintaining one's discipline requires a great effort.

We have experienced a period of significant asset appreciation in the last two years in Brazil. Inevitably, after periods such as these, one begins to see people going beyond their limits. It is at these times that the discipline of remaining faithful to the philosophy is put to the test.

Some companies that operate in cyclical sectors have been showing significant appreciation. The market often prices these stocks by perpetuating levels of return that are hardly reasonable for the long term. In the same way that we were able to purchase Perdigão stock at a significant discount, at an unfavorable moment in the cycle, some companies are traded today at prices much higher than their fair value because they are at an exceptional point in terms of returns.

Even though we expected that the short-term results of such companies were likely to remain strong, we did not invest in them. We believe that the risk of "paying a high price in order to sell at a slightly higher price" is high for the return expected. One cannot know beforehand how long periods of excessive market optimism will last. They may last for quite a long time, and they may end the next minute, for all we know.

Companies recently listed at the Bovespa are also examples of investments in which we do not find an adequate safety margin. The issue prices for these stocks incorporate expectations of high growth rates for their results, in addition to strong profitability. In our opinion, most of the new companies being traded operate in segments which have been through significant conceptual changes in the last few years (e.g., Natura, Grendene and Gol). This makes it very difficult to predict these companies' future cash-flow. The valuations of initial offers not only incorporate the persistence of exceptional results but also, in many cases, assume expansion in what already seems to us an explosive performance on the part of these companies.

CONCLUSION

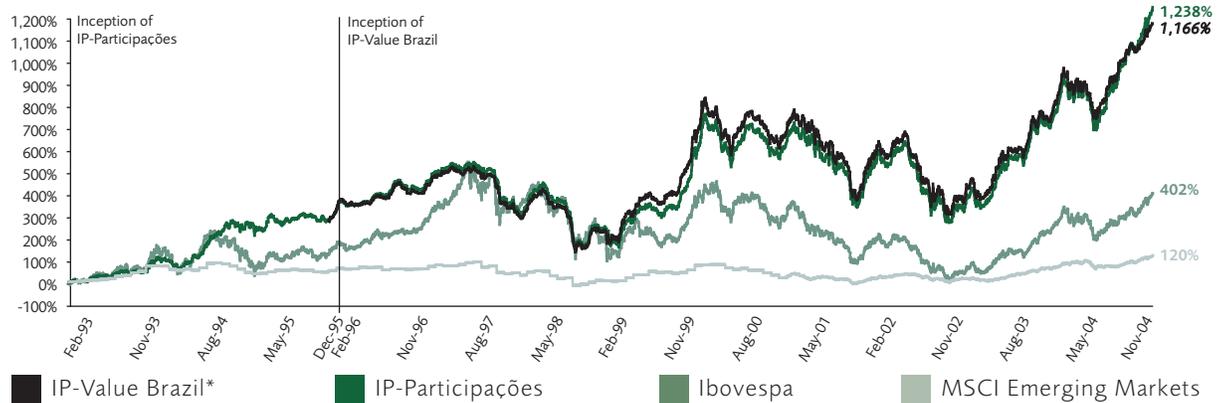
As we are not obliged to hit back all the balls served, we will continue to choose in a conservative manner those investments that, in our judgment, offer greater safety margins.

The cost of trying to adapt to a new paradigm, which in most cases ends up not materializing, may be very high. Capital preservation is a key variable for long-term results. It is enough to recall that if a portfolio loses 50% of its value, it requires a profit of 100% to return to the previous level.

Results as consistent as those booked by IP-Value Brazil, in our opinion, can be achieved in one way only: with the discipline necessary to faithfully follow the investment philosophy proposed, in which the manager has a competitive advantage.

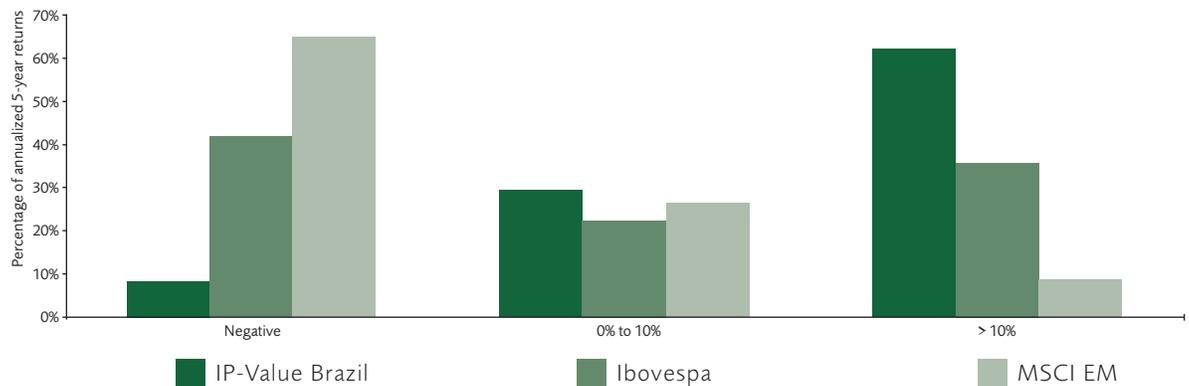
PERFORMANCE ANALYSIS - DECEMBER 2004

IP-Value Brazil* x Ibovespa x MSCI Emerging Markets



Trailing Performance Analysis*

Annualized Performance for every 5-year period since inception (daily trailing from 02/26/93 to 12/31/04)



	IP-Value Brazil*	Ibovespa	MSCI EM
1993(1)	51.0%	64.0%	46.9%
1994	142.5%	51.4%	17.4%
1995	3.3%	-9.5%	-12.8%
1996	32.6%	53.3%	5.6%
1997	-11.5%	34.5%	-11.2%
1998	-25.6%	-38.4%	-25.3%
1999	136.7%	69.5%	66.4%
2000	-1.0%	-18.1%	-30.6%
2001	-7.6%	-24.0%	-2.4%
2002	-26.4%	-46.0%	-6.0%
2003	87.7%	141.0%	56.0%
2004	28.1%	28.2%	26.3%
December-2004	5.3%	7.7%	4.8%
Since 02/26/1993(1)(2)	1165.7%	401.9%	119.6%
Annualized Return (1)(2)	23.9%	14.6%	6.9%
Annual Volatility	24.8%	44.3%	22.3%
Sharpe Ratio (3)	0.85	0.27	0.18

(1) Inception of IP-Participações

(2) Performance numbers are net of all fees

(3) Sharpe Ratio is: (Annualized Return minus the compounded annual 3-month T-bill return)/Annual Volatility.

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MISCELLANEOUS

• *"The essence of a speculative bubble is a sort of feedback, from price increases, to increased investor enthusiasm, to increased demand, and hence further price increases. The high demand for the asset is generated by the public memory of high past returns, and the optimism those high returns generate for the future. The feedback can amplify positive forces affecting the market, making the market reach higher levels than it would if it were responding only directly to these positive forces. Moreover, a bubble is not indefinitely sustainable. Prices cannot go up forever, and when price increases end, then the increased demand that the price increases generated ends too. Then, a downward feedback can replace the upward feedback."* -

Robert Shiller - Cowles Foundation Discussion Paper No. 1303 /May 2001

• *"If everybody is thinking alike, then somebody isn't thinking."* - George S. Patton, Jr.

• *"I've been through at least half a dozen periods where people think they're never going to get a chance to buy securities at intelligent prices. But it always changes."* - Warren Buffett

• *"People say they want their managers to think like shareholders and try to compensate them so they will. Well, it's pretty easy to think like a shareholder if they become one."* - Warren Buffett

• *"We like to put a lot of money in things we feel strongly about. And that goes back to diversification. We think diversification, as practiced generally, makes very little sense for anyone who knows what they're doing. Diversification serves as protection against ignorance. If you want to make sure that nothing bad happens to you relative to the market, you should own everything. There's nothing wrong with that. It's a perfectly sound approach for somebody who doesn't know how to analyze businesses."*

But if you know how to value businesses, it's crazy to own 50 stock or 40 stock or 30 stocks, probably-because there aren't that many wonderful businesses understandable to a single human being in all likelihood. To forego buying more of some super-wonderful business and instead put your money into #30 or #35 on your list of attractiveness just strikes Charlie and me as madness." - Warren Buffett.



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