INVESTIDOR PROFISSIONAL

Fund Report

IP-Value Brazil II

first quarter / 2005

Index

The change in market value of IP-Value Brazil II's positions in March amounted to –3,44% in dollars, net of management fee. Since February 26, 1993, when Investidor Profissional's management began, IP-Value Brazil Class has accumulated an appreciation of *1,147.34%* - equivalent to an average return of 24% p.a. In the same period, the Ibovespa recorded a performance of 15% p.a. and the MSCI Emerging Markets, 7% p.a.

First Quarter 2005 Results

IP-Value Brazil II closed the first quarter of 2005 with a deppreciation of 0.74%. The main influence on the return in the first quarter of 2005 was the performance of the Saraiva and Itaúsa stocks, which recorded rises of 34.6% and 7.1%, respectively. A negative contribution to the Fund's performance came from the stocks of Coteminas and Brasil Telecom Operadora, which suffered declines of 23.1% and 18.8%, respectively.

In the course of the quarter, the percentage of the Fund's long position in equities was increased. IP-Value Brazil II closed the quarter with about 87% of its assets invested in stocks. This was higher than at the beginning of the quarter, when the Fund had 77% invested in equities.

In March, with the depreciation in the market, we took the opportunity to increase the Fund's exposure in some companies that were excessively penalized. We increased our exposure to Coteminas in the long-term portion, and to Brasil Telecom in the liquid portion of the portfolio.

IP-Value Brazil II's portfolio remains well concentrated in its main investments: Saraiva, Itaúsa, Ambev, Globex, Coteminas and Brasil Telecom. These companies represent about 70% of the Fund's equity portfolio.

These are companies that we know in depth, and in which we perceive upside potential and a significant safety margin.

We comment below on the two companies that were most penalized by the market in the period and to which we have increased our exposure.

Coteminas

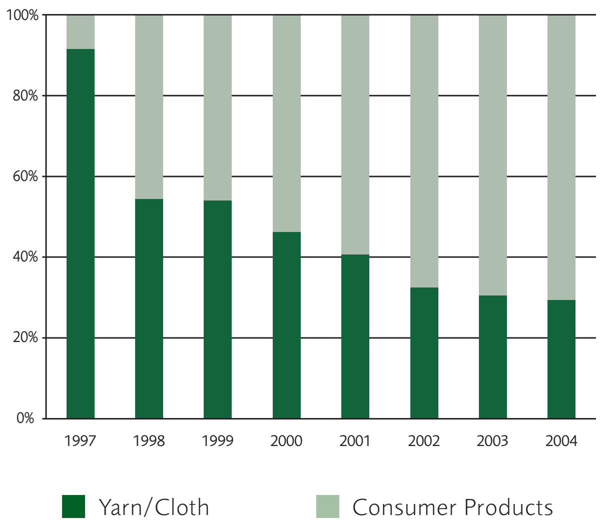
We have followed this company closely for a long time, even before our first investment in 1998. Since then, Coteminas has always taken part in the portfolio, with the size of the position depending the price of the stock and the opportunities of the moment.

We have identified differentials of the greatest importance in Coteminas. It is a winning company within an industry that faced exponential growth of the competition, due to the liberalization of the economy in the nineties.

Even in the face of this scenario, the company managed to emerge as a true Brazilian multinational textile company. A large part of the merit goes to its top quality management, which has adopted correct, coherent strategies in the last few years. The coherence between the discourse and the path followed is impressive – especially in a country like Brazil, where the implementation of long-term projects has been so difficult.

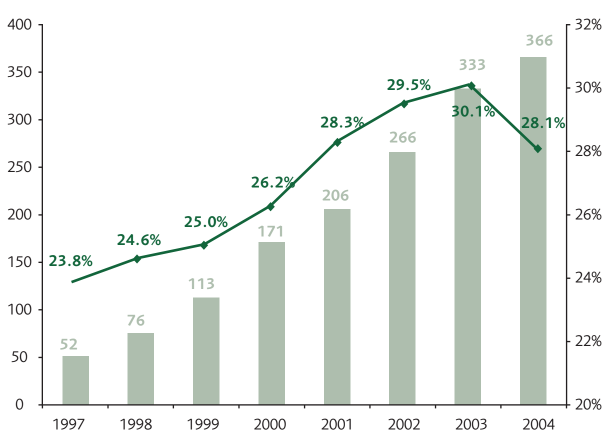
Since the beginning of the last decade, the company has been building the foundations for strong growth. This growth would transform the company from a producer of yarn and cloth for the internal market into an exporter of textile products for the final consumer with much more added value. This change has been taking place rapidly over these last few years.

Sales Mix



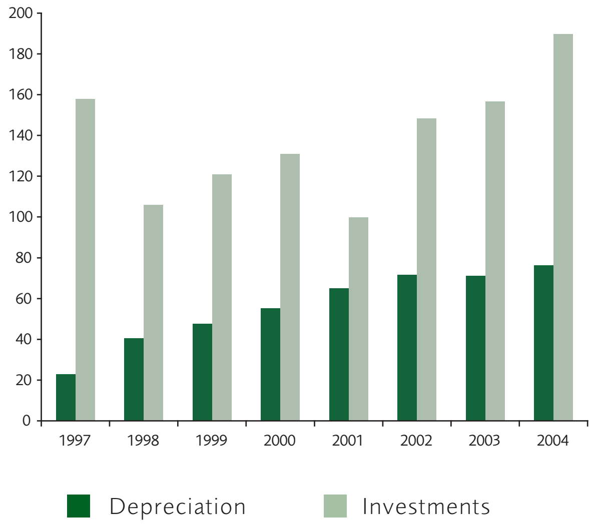
The year 1997 marked the beginning of the "asset optimization" phase, the second part of the strategy drawn up at the beginning of the nineties. Since then, Coteminas has registered the impressive figure of 31% p.a. Ebitda growth.

Ebitda and Ebitda Margin, 1997-2004



This growth took place in a period of high investments. The infrastructure to increase capacity fourfold and also to alter the company's product mix completely (from 100% commodities to products in the high added-value segment) required investments significantly higher than depreciation.

Investments vs. Depreciation, 1997-2004



2005 will be the first year of investments close to depreciation, which will enable a substantial free cash-flow.

Coteminas has already made most of the investments necessary in order to reach a sales level that will produce good returns. Thus, the next few years are expected to be characterized by a growing free cash-flow.

Meanwhile, the price of its preferred stock has reflected neither the change in the level of profitability nor the company's concrete prospects. It is situated today at the same level as in 2002.

In the current year, Coteminas' preferred shares have been strongly penalized, with a fall of more than 20%.

This fall was caused by the low visibility of the effects of two significant events on the company: (1) the end of the Multi-fiber Agreement, resulting in the elimination of import quotas in the American and European markets; and (2) the strong appreciation of the Real.

It seems evident to us that the market's reaction was exaggerated.

In fact, the end of the Multi-fiber Agreement is of the greatest importance to the sector and must be taken into account in analyzing the company's prospects. However, this analysis should be carried out carefully.

The first year of free trade in the world textile sector should reveal the strength of Chinese competitiveness in certain products. For obvious reasons, China emerges as an absolute leader in those segments which require intensive use of labor. Therefore, the apparel manufacture segment should go through the greatest changes, with China totally dominating world trade in these products. Some studies indicate that the country will be soon responsible for 50% of the US market in this segment.

However, in the segment that most interests Coteminas – the bed linen, table linen and towel segment – the "Multi-fiber effect" has a reduced impact, because relatively little labor is used in this segment, in which Brazil currently competes on equal terms with China, India and Pakistan.

In the determining factor for competitiveness in this segment, the cost of cotton, we are already in the lead, thanks to the high productivity brought about by heavy technological investments in the field. These investments changed Brazil from a net importer, in the middle of the last decade, into an important net exporter in the world cotton trade at present.

Being situated close to plantation areas is a significant competitive advantage in the cotton-intensive textile segments. Given the low price of the commodity, freight represents an important percentage of the final price of cotton.

Thus, it seems to us unlikely that Coteminas will be swallowed up by its international competitors in the fight for higher sales volume in the segments in which it operates. The negative effect for the company comes from the inevitable drop in prices, which will be offset by the increase in sales volume that will occur.

With regard to the second negative point, the strong appreciation of the Real in the first quarter will put pressure on the company's results.

However, the results booked in the fourth quarter of 2004 gave us a good idea of what to expect from the company in a scenario with a weak exchange rate. Coteminas generated an Ebitda of R$ 104mm – no less than its record quarterly cash-flow.

But this is only the short-term analysis – a good exercise in order to understand Coteminas' performance under very different scenarios, but of little use to indicate a permanent change in the company's value.

When we look at a market that has absorbed all stock offers at EV/Ebitda multiples of around 7-8x (if not higher), and see that Coteminas is trading below 4x 2005 Ebitda, we reach the conclusion that there is a clear distortion. Even more so if we consider the quality of the company's assets and management, besides shareholder security.

We remain confident in Coteminas' long-term prospects. We are sure that, even in a scenario with a stronger exchange rate, the strategic planning carried out over 10 years ago will enable the company to book higher results in 2005.

The newspaper headlines concerning Chinese competition and the stronger Real are, in fact, effects that make a lot of noise in the short term, but lose importance when compared with the company's long-term prospects.

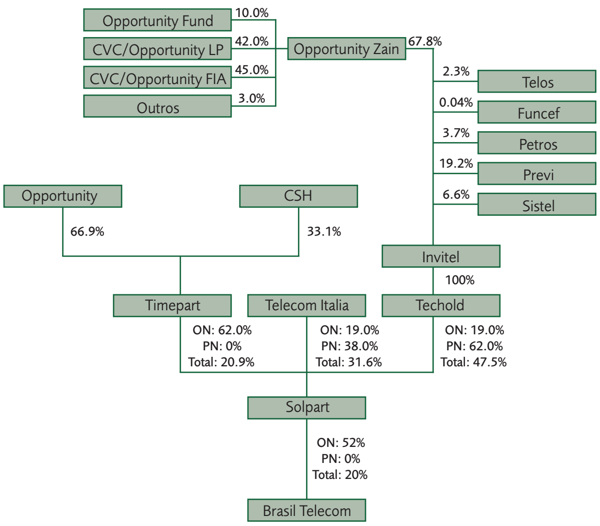
There is nothing that would justify an asset of such quality being traded at less than 5x the profit projected for 2005.

Brasil Telecom

Brasil Telecom is the main position in the liquid part of the Fund's portfolio.

The complex shareholder structure created when the company was privatized (in 1998) gave control of Brasil Telecom to Opportunity, which holds a small stake in the company. This structure created friction that resulted in a big corporate imbroglio, involving the remaining shareholders belonging to the controlling block (Pension Funds and Telecom Italia).

The organization chart below shows the company's intricate controlling structure.



Despite the corporate imbroglio, the company's management had been presenting adequate execution and a competent strategic approach. The company's efficiency, according to the sector's main metrics, has remained compatible with the region in which the company operates. Brasil Telecom continues to be a strong cash generator, thanks to its virtual monopoly in wireline telephony in the region where it operates. The business fundamentals, therefore, remain sound.

There are two distinct vehicles to be used for investing in Brasil Telecom: the holding company Brasil Telecom Participações (BRTP), which controls the telecom operating company and holds about 64.5% of its total capital, and Brasil Telecom Operadora (BRTO). Our investment is divided between the two vehicles. One part is invested in the holding company's common stock, and the other in the operating company's preferred stock.

Some important events occurred in the last few months. First, the pension funds dismissed Opportunity from the management of CVC/Opportunity FIA, and therefore one of the pillars that support Opportunity in the control of Brasil Telecom was shaken. Some time later, Opportunity was also dismissed by Citibank as the manager of CVC International, another of the company's controlling arms. Immediately after that, the Pension Funds and Citibank signed a shareholders' agreement undertaking to operate in a coordinated manner from then on.

Although some judicial battles still remain to be fought, in order for the Pension Funds and Citibank to take over effective control of the company, the fact is that they have taken important steps in that direction.

If the Pension Funds and Citibank do succeed in taking over control of the company, the next step would probably be to prepare it for sale.

If the succession of events described above materializes, the company's common shares will benefit substantially. In our assessment, the possible sale of the company's controlling shares by the Pension Funds together with the Citibank will ensure minority common shareholders the tag-along right provided by the Corporations Law. Thus, minority common shareholders would receive 80% of the value received by the present controlling shareholders.

In this scenario, the upside potential for the common shares of Brasil Telecom (BRTP3) is very substantial.

The investment in preferred shares of the operating company, on the other hand, is based on the perception that the price – which is considerably depreciated in relation to that of other companies in the sector – cannot be justified by the company's operating performance. It is a reflection of the high discount rates demanded by investors, explained by the high perceived shareholder risk, due to the corporate imbroglio.

However, despite the fact that the shareholder risk is explicit, we do not consider it very different from the risk seen in other companies in the sector, which are trading at significant premiums in relation to Brasil Telecom.

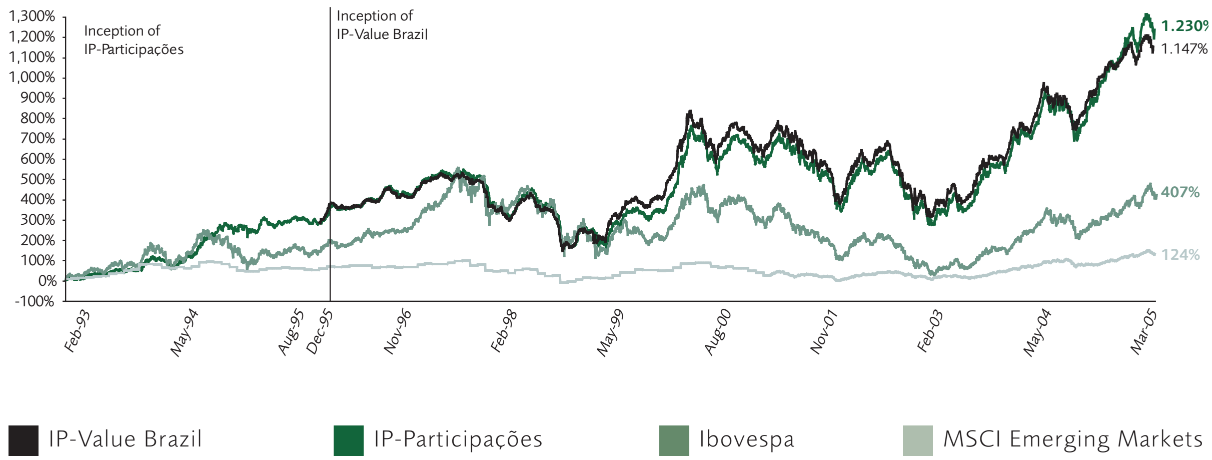
In the market's view, for the simple fact that the risks of companies similar to Brasil Telecom are not so obvious, they must be smaller. We believe that the present discount is exaggerated.

Logically, there are potential risks that would tend to materialize after the company's control changed hands. We have made several simulations, all very conservative from the viewpoint of the investor in the operating company's preferred shares (BRTO4), and reached the conclusion that the market is pricing in the worst of all worlds for this company. In order to illustrate this statement, we made a simulation in which Telecom Italia would purchase Brasil Telecom's control in one and a half years, and would then sell to Brasil Telecom all the mobile operations it owns in Brazil at a multiple corresponding to 10 times the estimated cash-flow of these companies for 2006.

In this scenario, the upside potential based on the discounted cash-flow, though reduced, remains attractive. Considering a multiples analysis, the above scenario would mean a rise in the EV/EBITDA multiple to 3.3 in 2006, still below the sector's average.

Therefore, it may be observed that the investment at the present price level already incorporates a large part of the likely risks. Even projecting a very conservative corporate scenario for the company, its preferred shares would carry a discount vis-à-vis other comparable companies in the sector. The market's nervousness provided us, and has continued to provide us, with good opportunities to invest in this asset with an adequate safety margin, which makes us optimistic in relation to the future of the Fund's investment in Brasil Telecom.

Performance Analysis - March 2005



Performance (US$)	IP-Value Brazil II (3)	IP-Value Brazil (2)	Ibovespa	MSCI EM
March 05	-3.44%	-3.91%	-8.07%	-6.59%
February 05	7.97%	7.63%	17.07%	8.78%
January 05	-4.80%	-4.71%	-6.09%	0.32%
December 04	5.85%	5.31%	7.70%	4.81%
November 04	1.32%	4.99%	13.65%	9.26%
October 04		-0.41%	-1.15%	2.40%
September 04		3.59%	4.46%	5.78%
August 04		8.09%	5.79%	4.19%
July 04		8.64%	9.61%	-1.77%
June 04		6.86%	5.66%	-0.20%
May 04		-1.93%	-5.49%	-1.33%
April 04		-8.12%	-11.18%	-8.18%
March 04		-0.56%	2.20%	1.28%
February 04		0.93%	-1.72%	4.61%
January 04		-1.03%	-1.84%	3.82%
December 03		13.92%	13.29%	6.97%

Performance (US$)	IP-Value Brazil II (3)	IP-Value Brazil (2)	Ibovespa	MSCI EM
2005 (YTD)	-0.74%	-1.45%	1.06%	1.94%
2004	7.25%	28.11%	28.16%	26.28%
2003		87.65%	141.04%	56.35%
Last 12 months		27.10%	31.36%	17.02%
Last 60 months		46.95%	-2.27%	24.75%
Since 02/26/1993 (1)		*1,147.34%*	407.26%	123.82%
Annualized Return (1)		*23.75%*	14.69%	7.04%
Historical Volatility		*24.69%*	44.04%	22.12%
Sharpe Ratio (4)		0.85	0.27	0.19

(1) Inception of IP-Participações

(2) Performance numbers of IP-Value Brazil and IP-Participações are net of all fees

(3) Performance numbers of IP-Value Brazil II are gross of performance fee; inception on November 19, 2004

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

* IP-Value Brazil is an offshore mirror 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 on 02/26/1993, its offshore mirror 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 italics.

Miscellaneous

Over the 35 years, American business has delivered terrific results. It should therefore have been easy for investors to earn juicy returns: All they had to do was piggyback Corporate America in a diversified, low-expense way. An index fund that they never touched would have done the job. Instead many investors have had experiences ranging from mediocre to disastrous.

There have been three primary causes: first, high costs, usually because investors traded excessively or spent far too much on investment management; second, portfolio decisions based on tips and fads rather than on thoughtful, quantified evaluation of businesses; and third, a start-and-stop approach to the market marked by untimely entries (after an advance has been long underway) and exits (after periods of stagnation or decline). Investors should remember that excitement and expenses are their enemies. And if they insist on trying to time their participation in equities, they should try to be fearful when others are greedy and greedy only when others are fearful. Warren Buffet - Berkshire Hathaway Annual Report 2004

• *...And, again, our usual caveat: macro-economics is a tough game in which few people, Charlie and I included, have demonstrated skill. We may well turn out to be wrong in our currency judgments. (Indeed, the fact that so many pundits now predict weakness for the dollar makes us uneasy.) If so, our mistake will be very public. The irony is that if we chose the opposite course, leaving all of Berkshire's assets in dollars even as they declined significantly in value, no one would notice our mistake. John Maynard Keynes said in his masterful* The General Theory*: "Worldly wisdom teaches that it is better for reputation to fail conventionally than to succeed unconventionally." (Or, to put it in less elegant terms, lemmings as a class may be derided but never does an* individual *lemming get criticized.) From a reputational standpoint, Charlie and I run a clear risk with our foreign-exchange commitment. But we believe in managing Berkshire as if we owned 100% of it ourselves. And, were that the case, we would not be following a dollar-only policy.* Warren Buffet - Berkshire Hathaway Annual Report 2004

• *A critic once noted that several economists often quoted in the news media "predicted ten of the last two recessions."*

• *The market itself is very volatile... ...Now no one seems to know when a bear market is gonna happen. At least if they know about 'em, they're not telling anybody about 'em. I don't remember anybody predicting the market right more than once, and they predict a lot. So they're gonna happen. If you're in the market, you have to know there's going to be declines. And they're going to cap and every couple of years you're going to get a 10 percent correction. That's a euphemism for losing a lot of money rapidly. That's what a "correction" is called. And a bear market is 20-25-30 percent decline. They're gonna happen. When they're gonna start, no one knows. If you're not ready for that, you shouldn't be in the stock market. I mean stomach is the key organ here. It's not the brain. Do you have the stomach for these kind of declines? And what's your timing like? Is your horizon one year? Is your horizon ten years or 20 years? If you've been lucky enough to save up lots of money and you're about to send one kid to college and your child's starting a year from now, you decide to invest in stocks directly or with a mutual fund with a one-year horizon or a two-year horizon, that's silly. That's just like betting on red or black at the casino. What the market's going to do in one or two years, you don't know. Time is on your side in the stock market. It's on your side. And when stocks go down, if you've got the money, you don't worry about it and you're putting more in, you shouldn't worry about it. You should worry what are stocks going to be 10 years from now, 20 years from now, 30 years from now. I'm very confident.* - Peter Lynch - Author of "Beating the Street" and "One Up on Wall Street" and former manager of the Magellan fund, in a 1996 interview.

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