Fund Report

IP-Equity Hedge Brazil

Second Quarter / 2005

Investidor Profissional

Desde 1988

Index

"The difference in unit value between the controlling shares and minority shares is generally relatively small, because unless control is exerted abusively, for the benefit of the controlling shareholder, it does not ensure advantages, in terms of asset value, that would justify attaching a much higher value to the controlling shares"

Alfredo Lamy Filho and José Luis Bulhões Pedreira

INTRODUCTION

The 2001 amendment to the Corporations Law introduced important advances in the rights and protection of minority shareholders. Among these changes, we will touch on an issue that has been present quite frequently in our past reports – tag-along rights. We believe that this is one of the most important rights that minority shareholders should pursue, and certainly one that we, at IP, give a lot of weight to when taking investment decisions for our funds. Not only because it ensures access to the company's strategic value at the time it is sold but also as a means of aligning interests in cases in which no sale is foreseen within the short to medium term horizon.[1]

We have witnessed, in the years 2004/05, the return of operations in the capital market with successful IPOs and block-trades. The overwhelming majority of companies gave minority shareholders rights that go further than those required by the Law (New Market and Level II), showing that investors are willing to pay significant premiums for such protections, among which we highlight tag-along rights.

It is quite clear to us that the perception of the value of tag-along rights has been gaining its due importance. Past experiences have shown how a company's strategic value is (not) shared when there is no adequate shareholder protection.

For this reason, we concentrate IP-Value Brazil Classes portfolio in companies whose shares guarantee tag-along rights. At present, 76% of the Classes' equity portfolio is invested in shares that guarantee this right, while in the case of the Ibovespa index, for example, only 32% of the portfolio offers such protection.

The report's main goal is to present IP's vision about this relevant issue. Following a short background on tag -alog rights in Brazil and recent events, we justify our understanding. Special attention will be paid to change of control cases in companies with shared control.

A BIT OF HISTORY

Tag-along rights were not included in Bill no. 6.404/76 (Corporations Law), drawn up by Dr. Alfredo Lamy Filho and Dr. José Luis Bulhões Pedreira[2]. The Bill was altered in Congress, by means of an amendment presented by Senator Otto Lehmann, which instituted a compulsory tender offer for shares in the event of sale of the control stock of a listed company. This amendment gave rise to article 254 of Law no. 6.404/76, which ensured equal treatment for ***all*** minority shareholders, including those holding shares with no voting rights. However, one week after the law was enacted, the National Monetary Council issued a Resolution restricting the tender offer, in the event of acquisition of control, to shares with voting rights[3].

This rule was in force up to 1997, when Law no. 9.457, with the short-term motivation of maximizing the amount collected by the government in the privatization of state-owned companies, revoked article 254.

The proliferation of the use of pyramid control structures observed in the Brazilian privatization process created a large number of situations in which control is shared among a group of shareholders who, though not individually holding the majority of the capital stock, get together so that, by means of an agreement, they can effectively reach the majority of

1 The cases of Tele Centro Oeste Celular Participação, Embratel and Ambev are typical in this respect.

2 Message 204

3 Resolution 401/76

the voting capital and determine the path the company should follow.

As a result, the Brazilian market witnessed several examples of changes in control with extremely high premiums appropriated exclusively by the controlling party. The magnitude of these premiums may be explained, among other things, by the fact that it was possible to extract private benefits from the controlling interest[4], which very often happens in companies with capital structures that are highly leveraged in preferred shares without the proper protections.

With the aim of giving greater protection to minority shareholders and a boost to the Brazilian capital market, a reform to the Law was carried out in 2001, which, though not ideal, was what could be achieved. Article 254–A was brought back, stipulating a premium of 25% for the controlling party in the event of the sale of the controlling block . In other words, in the case of a change in control, minority shareholders with voting rights have the right to receive an amount equivalent to 80% of the price paid to the controlling party. We shall not argue about to whom such a premium for control belongs – whether exclusively to the controlling shareholder[5], or whether it is an asset of the company, which should therefore be divided among all the shareholders[6].

Since the return of tag-along rights, 23 Tender Offers for Shares ("OPAs" in Portuguese) have been registered as a result of the sale of controlling interests. In a large majority of cases, they were events in which there was no room for doubt, because they were sales made by a defined controlling party[7] to a third-party buyer, likewise identified. However, the Brazilian market has not yet experienced more complex cases, nor has it had the opportunity to learn the position of the regulating body (CVM) in such cases[8].

Let us say that the controlling shareholder of a listed company is an operational holding company, owning several other companies: in the event that the control of this holding company is sold, would it trigger the tag-along mechanism for the shareholders of its listed subsidiaries? And what price would be attributed to each subsidiary of this holding company? Let us now consider the case of a corporation[9] where three investment funds, not linked together by a shareholders agreement, elect the majority of its Board of Directors. If one of them fails to vote jointly, would there be a change in control? And if we think of a controlling shareholder selling only 50% of its stake, but maintaining its controlling position by means of a shareholders agreement, is there a sale in this case? In the case of a listed company whose control is shared among three shareholders that have signed an agreement, none of them holding more than 20% of the voting capital: if one of these shareholders acquires the stakes of the others, being left alone in control of the company, would there have been a sale of control?

Let us focus the discussion on the latter case, as we can see that this situation very often exists in different companies in the Brazilian capital market.

In these cases, the doubt as to the application of tag-along rights causes investors to apply substantial discounts to the shares in their valuations, creating significant inefficiency. Such doubts derive not only from the relative lack of jurisprudence and practical examples, but also from opinions already expressed publicly by renowned lawyers.

4 Tunneling, operations with related parties, excessive remuneration, etc.

5 Alfredo Lamy Filho, José Bulhões Pedreira and Fabio Konder Comparato

6 Berle and Means qualify the sale of the controlling interest in company as the sale of a social asset, arguing that the amount paid as a premium for the controlling block should be distributed to all the company's shareholders.

7 AMore than 51% of the voting capital

8 ARecently the technical area of this authority issued an opinion (OFÍCIO/CVM/SRE/SEP/Nº 1005/2005 - www.cvm.gov.br/port/infos/CBDDespachoPFE.asp) on the complex operation between Pão de Açúcar and Casino. Their opinion was that, although the latter company was already included in the shareholders agreement, there was a sale of control and therefore an obligation to make a Tender Offer for Shares. However, the parties have already announced that they will appeal to the commissionaire council.

9 Without a defined controlling party. The Brazilian market may test this model with the Lojas Renner operation, scheduled for the end of June.

There is a school of thought that argues that there is no sale of control when a consolidation of the shareholders comprising the controlling block takes place. In such cases, a tender offer would not be compulsory. For those who adhere to this opinion, a sale would not have taken place in reality, because the shareholder in question already belonged to the controlling block, and there would have been only an intra-group reorganization.

On the other hand, some think that it is not enough to take only the "sale" concept into account, but also that of "acquisition" of control. In order to identify such events, one should check whether or not there was payment of a (direct or indirect) premium, an assumption (or otherwise) of the responsibility for contingencies on the part of the seller, a change in the company's strategy and management/executive committee, etc.

The controlling shareholders of Ambev and of Cia. Siderúrgica Tubarão (CST) recently effected operations similar to those mentioned above, and spontaneously registered tender offers for shares due to the sale of the controlling interest (tag-along tender offer).

Recent Events

A few weeks ago, on the occasion of an event of great importance, the technical area of the CVM decided that a tag-along tender offer must be made to the minority common shareholders of Pão de Açúcar (CBD) in the complex operation between the latter company and the French group Casino.

Although the "Association Agreement" declares that the aim is to maintain the shared control of CBD, the CVM's opinion was different and, among other things, highlighted the following :

"..it is understood that the simple fact that a certain shareholder signs an agreement with the controlling shareholder does not automatically give the former the status of a controlling shareholder, since this type of agreement may only aim at establishing mechanisms for the protection of the minority shareholder's interests pertaining simply to its assets, being far from an effective regulation for sharing the power of control, which remains concentrated in the hands of the controlling shareholder."

Another determining factor for this understanding was the insignificant amount that Casino will pay in the future in order to hold majority control, as we shall see:

"...Casino shall have, as soon as said agreement is implemented, the right to acquire, from the AD Group, 1 (one) common share of the Holding Company – The Option to Purchase the Change in Control – according to the definitions comprising the Agreement.

All the consideration for the sale of CBD's control is already being paid by Casino to the AD Group, at the time of payment of the price for the acquisition of the participation to be transferred immediately, remaining to be paid, at the time when the Option to Purchase the Change in Control is exercised, the amount of R$ 1.00 only.

The Option to Purchase the Change in Control, taken together with the other provisions comprising the Agreement, constitutes a right of extreme importance, due to the profound alterations to the relationship between Casino and the AD Group implied therefore the economic value of such an option cannot possibly amount to only R$ 1.00.

This circumstance reveals that the premium for the granting of this option has been included in the consideration already received by the AD Group, at the time of acquisition of the shareholder participation that gives Casino the position of joint controller of CBD. In this case, it is our understanding that the Tender Offer provided by article 254-A of Law no. 6.404/76 is compulsory".

Although the practical impacts are insignificant for Pão de Açúcar's shareholders, because the free float of common shares is less than 1%, we think that the position taken by the CVM was of great value for the Brazilian capital market, as it makes the regulating body's opinion on the subject quite clear.

Our Position

It is our understanding that, in cases where the control of a company is concentrated within a block, when one shareholder that has signed a shareholders agreement moves from the position of a minority shareholder to one where it holds the majority of the company's voting capital, this constitutes a sale of control and a tender offer should compulsorily be made – even if said agreement contains clauses that give veto powers, the power to appoint directors, preference in the acquisition of shares, etc.

Legal technicalities aside, we base our opinion on the fact that this shareholder will have (individually) the votes that are necessary to elect the majority of officers and, as a result, determine the company's orientation.

The most visible example of this situation is the case of "Brasil Telecom", in which a possible acquisition of the shares of the controlling parties – Pension Funds and Citibank - by Telecom Italia has been giving rise to doubts and confusion even among qualified lawyers and investors.

Careful reading of the various corporate documents relating to the complex chain of shareholders, especially the recent shareholders agreement of Zain Participações S.A, dated March 9, 2005, reinforced our view that the control of Brasil Telecom is exercised by Zain, which in turn is exclusively controlled by the pension funds and Citibank, as may be seen at the very beginning of the agreement:

*"...WHEREAS the Company, in its turn, holds direct and indirect shareholder control of a number of corporations, including the corporations listed in **Exhibit I**[10] hereto (jointly denominated "**Companies that have received Investments**", including any corporations in which the Company may at any time hold a direct or indirect shareholder participation, excepting, however, Argolis Participações S.A. ("**Argolis**") and any corporations in which the Company may hold shareholder participations exclusively through Argolis)".*

Having said that, in our opinion, if Telecom Italia – as is speculated – acquires the participations belonging to the Funds and Citibank, a sale of the controlling interest will take place. We consider that the probability that the tag-along rights will be triggered at that time is high - and, more important for our investment, much higher than what is being priced into the common shares of Brasil Telecom Holding (BRTP3) by the market.

This asymmetry of perception is what justifies the investment of our funds in BRTP3. We do not have a monopoly of the truth, nor do we intend to defend our own cause here, considering that we have an interest in this outcome. We know professionals we respect who think differently. However, we do not know anyone, with sufficient credibility, who will vehemently state that the opposite view to ours is that which will prevail, with 100% certainty. And it is a perception close to this that is reflected in the current stock price of BRTP3. That is where the opportunity lies.

Final Considerations

All these recent cases invite us to reflect on the quality of our corporate legislation, and whether it is up-to-date, in respect of such an important issue as the sale of control stock.

Firstly, we think that the regulating body's interpretation should be done on a case-by-case basis, taking into consideration the characteristics, peculiarities and, above all, the complexities of each case.

10 Opportunity Zain S.A., Invitel S.A., Techold Participações S.A., Solpart Participações S.A., Brasil Telecom Participações S.A., Brasil Telecom S.A.

If the uncertainties in relation to the application of tag-along rights remain, we believe that there will be a setback in relation to the advances that have been achieved in the last few years, causing both companies (which would have their capital cost increased) and investors (who would have their expectations frustrated) to lose out.

We do not intend to exhaust the subject here, but we believe that it is only with the experience of practical cases and with the dissemination of CVM's understanding, that we investors will be able to make investment decisions concerned exclusively with quantifiable risks, rather those that are unknown (and which, in most cases, are the most costly).

We remain, as usual, at your disposal whenever requested, to explain our view as long-term investors on this extremely important subject.

Bibliography:

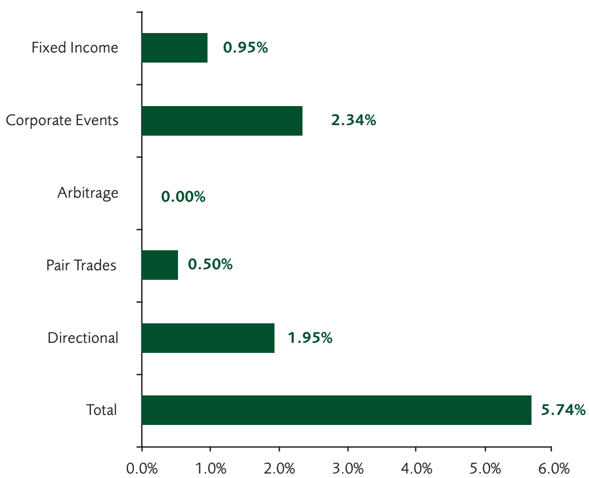
1. *Reforma da Lei das Sociedades Anônimas* (Reform of the Corporations Law) - Coordinator Jorge Lobo
2. Efficient and Inefficient Sales of Corporate Control – Lucien Bebchuck – Discussion paper no. 136
3. *A Lei das S.A. Volume II Pressupostos, Elaboração e Pareceres* (The Corporations Law - Volume II - Assumptions, Preparation and Opinions) – Alfredo Lamy Filho, José Luiz Bulhões Pedreira
4. *Descontrole de Critérios* (Uncontrolled Criteria) – Essay by Mr. Aloysio Meirellees de Miranda Filho – *Capital Aberto* Magazine, no. 22
5. CVM website – www.cvm.gov.br
6. Corporate documents relating to the Brasil Telecom shareholder chain.

IP-Equity Hedge Brazil booked an appreciation of 1.94% in June. In the year 2005, the Class has accumulated an appreciation of 4.81%. Since inception on December 29, 2003, the Class has accumulated an appreciation of 7.37%.

Performance / Results

In this quarter, the IP-Equity Hedge Brazil recorded gains in the corporate events, pair trades and directional strategies.

Breakdown of Returns for 2nd Quarter of 2005



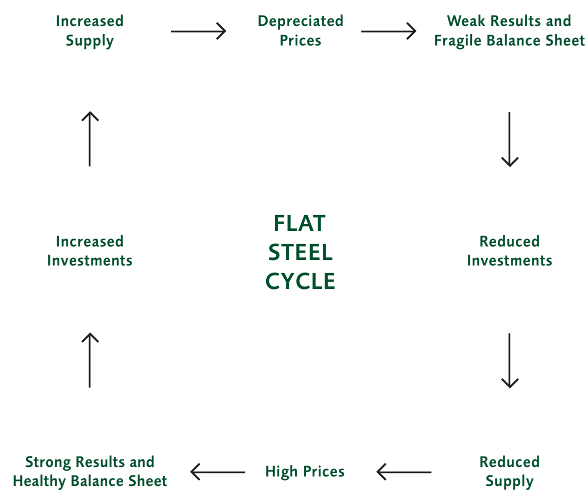
The main positive contributions in the period came from two operations: the long position in Brasil Telecom common shares, whose rationale is explained in the introduction, and the short position in CST preferred shares, whose rationale is outlined below:

Short position in preferred shares of Companhia Siderúrgica Tubarão

The Fund's Average Exposure: 5.0%

CST is a flat steel company focused on exports of low added-value products with a high exposure to the variations in the steel price cycle.

The high exposure to the steel price cycle results in very high volatility in results, and requires investors to be strongly disciplined so as not to be influenced by times of excessive optimism and pessimism. The cyclical nature of the flat steel industry, which has a low entry barrier and an unfavorable competitive position vis-à-vis clients and suppliers, is illustrated below:



Although the consolidation process in the world steel industry has accelerated in the course of the last few years, the flat steel industry still has a very under-privileged position vis-à-vis clients and suppliers, and undisciplined players, which makes a change in this cyclical pattern unlikely in the short to medium term.

The steel industry has recently been through an exceptional time. The strong demand for steel, boosted by China and the strong growth in the world economy, found the industry unprepared to supply the necessary amount of steel, after a long valley in the cycle and low investments (see charts in the next page).

Steel Industry: Global Capex (base 100)

Source: USB Basic Materials Conference

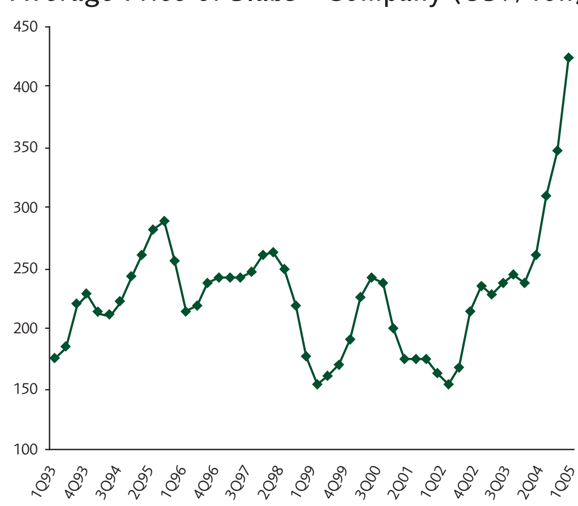
GDP Growth - YoY (%)

	2000	2001	2002	2003	2004
U.S.A.	3.7%	0.8%	1.9%	3.0%	4.4%
China	7.3%	6.6%	8.1%	9.9%	9.5%
Euro Zone	3.0%	0.9%	1.2%	0.9%	1.5%

Source: Bloomberg

This imbalance caused a shortage of the product, leading to a strong increase in steel prices, as illustrated in the chart below, which shows the historical price of the slabs exported by CST.

Average Price of Slabs - Company (US$/Ton)



Source: CST

This strong rise in steel prices benefited CST's results very significantly; at the end of 2004, it had reached a profit level that was clearly unsustainable in the medium to long term. The company's return on capital invested was in the 30% range, which is an extremely high level and not sustainable, given the fragmentation in relation to clients and suppliers, the industry's low entry barrier, and capacity additions expected for the next few years.

This strong results momentum generated a significant appreciation in the company's stock. Following this appreciation, a big distortion was observed between the company's price and fair value, which led us to set up a short position in CST.

The distortion between price and fair value was reinforced by the negotiations involving the company's controlling block. In 2004, CVRD and the block of Japanese shareholders sold their stakes in CST for an average price of approximately US$ 40 per lot of 1000 shares. It is important to stress that the shares sold for US$ 40 were part of CST's shareholders agreement, and had guaranteed access to the strategic value, representing much more valuable assets than the preferred shares, without tag-along rights, traded in the market. At one time, the latter were trading at levels above US$65 per lot of 1000 shares. Even today, after a big fall, the shares are trading above US$ 45.

In addition to the medium-term fundamentals, a series of catalysts reinforced the foundations for the short position. Among them, the following should be mentioned:

- A strong rise in raw material prices in the 2nd and 3rd Quarters of 2005.

- End of the de-leverage effect / compression in the company's multiples, since the company had already presented a big reduction in its debt, and a new investment cycle would start in 2005

- Inversion of the rising trend in prices in contracts, which were at unsustainable levels.

As the medium-term fundamentals became clearer and the negative catalysts were observed, CST's shares depreciated, generating gains for the Fund. However, it is important to stress that, despite the recent drop in steel prices, it cannot be stated that we are moving towards a valley in the cycle. It is important to stress once again here that IP's efforts are focused on finding distortions between the price of the asset and its fair value, based on a normalized price level. To predict the cycle's short-term movements or inversion points is not - and probably never will be - Investidor Profissional's focus of attention.

The main risk that might be seen in the short operation in CST is linked to the setting up of Arcelor Brasil, whereby CST's shareholders would be migrating into a vehicle that would encompass all the steel assets controlled by Arcelor: (1) Belgo, (2) CST and (3) Vega do Sul (Acesita being left for a second step). Despite Arcelor's speech with regard to an exchange based on economic value, which should favor Belgo in detriment to CST, serving as a catalyst for the short position, the details of the formation of the holding company have not yet been defined, which leads to uncertainties.

In spite of the uncertainties regarding the formation of Arcelor Brasil, the other fundamental factors of the operation remain very favorable. The operation has been partially reduced and part of the profit realized.

The main negative highlight of the quarter was the long position in Gerdau S.A. preferred shares.

Long position in Gerdau S.A PN

Average exposure: 2.0%

Gerdau is a long steel producer whose main customers are in the construction sector, industry and agribusiness. Its operations are concentrated in the Americas, where it has a leading position. Gerdau's operations may be divided into three fronts: Brazil, North America, and Latin America excluding Brazil - the latter being of little significance at present.

We will first discuss operations in Brazil, which currently represent about 75% of the company's normalized consolidated Ebitda. The Brazilian operations focus production on two markets: the domestic market and exports.

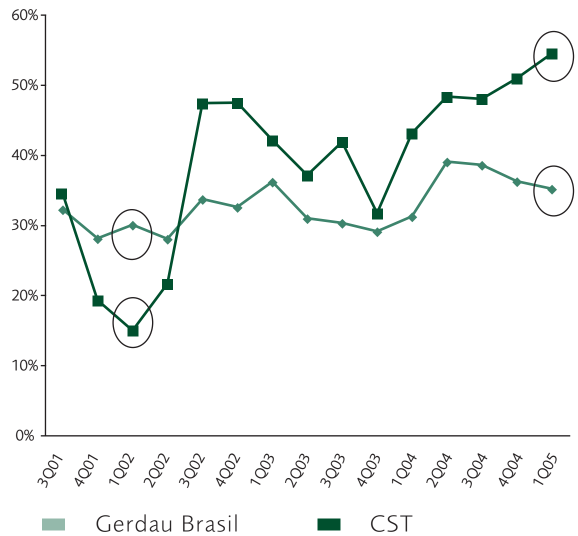
In the domestic market, the company has a privileged competitive position, where it enjoys a duopoly situation, owns the majority of its distributors, has fragmented clients and suppliers, and also benefits from unique specification rules, which inhibit imports. These features ensure strong bargaining power and high returns, even at adverse times, such as the 2002 trough in the cycle and the slowdown in the Brazilian building sector in 2003. Given the present industrial conditions, this market should represent something like 65% to 70% of the product mix produced in Brazil.

The remaining output is directed towards the foreign market, mainly through Açominas. Although this plant is highly efficient, its production should be considered less protected, and consequently more exposed to cyclical variations.

Therefore, we considered that 65% of the sales mix originated in Brazil, which is allocated to the domestic market, would be protected from the cycle's fluctuations. Later, due to the significant deterioration in the domestic market's demand scenario, the company found itself obliged to increase its export volume, thus invalidating the above assumption.

Although the situation looks less favorable, the fact that the company is better protected becomes clear when the evolution of Gerdau's margins is observed in comparison with CST, whose fundamental factors were detailed previously. Between the cycle's trough (1Q02) and its peak (1Q05), the Ebitda margins of Gerdau Brasil rose from 30% to 35%, while CST's margins rose from 15% to 54% (see chart in the next page).

Evolution of Ebitda Margins



The low volatility of Gerdau Brasil's results demonstrates the company's capacity to maintain an adequate level of returns even during adverse times, and gives a good idea of the soundness and quality of the business.

Gerdau's North American operations (Gerdau Ameristeel) are located in a market that presents clear challenges. However, this market has shown relevant improvements over the past few years.

Historically, the long steel market in North America has not been very profitable, due to various factors, among which one may stress the highly fragmented local steel production and the low barrier to imports – independent, fragmented distributors. The lack of discipline of some players did not help to alter the scenario either.

Despite the not very encouraging track record, certain factors point to a structural change that will tend to alter the profit level of the local long steel industry. During the last few years, Gerdau has carried out a series of acquisitions in the US market. This movement was accompanied by Nucor, its main regional competitor. Today, after this period of strong consolidation, Nucor and Gerdau dominate about 50% of the long steel market in North America.

After a long study of its main competitor, it was clear that the latter was disciplined and focused on profit. With the market dominated by two disciplined companies, which seek profitability and know the importance of slowing down production at certain times, the market tends to be more profitable over time.

Despite the significant progress already achieved, the industry still has to face a great challenge ahead: the low barrier to imports. Efforts are being focused on fighting this problem, such as the acquisition of service centers and distributors, but it is still too early to evaluate the effective results.

Given the lower degree of protection enjoyed by the industry in North America, in comparison to Brazil, lower margins than those seen in this country should be expected. However, the strong evolution of the fundamentals points to a normalized level far higher than that seen in the past.

After the big drop in the steel companies' shares, a distortion between the price and fair value of Gerdau's stock was identified. With conservative assumptions, including the stagnation of the construction industry within a weak performance scenario (as observed in 2003) and no benefit from the consolidation in North America, the upside was in the 60% bracket. After a series of probable catalysts for the asset were identified, it was decided to set up a long position in preferred shares of Gerdau S.A.

The previously identified catalysts were the following:

- Solid results in North American operations for the 1H05: After conferences with both Gerdau Ameristeel and Nucor, it was clear that 1H05 results would be positive. Despite the drop in the product's final prices, the fall in the main raw material (scrap) would leave sound margins for the company.

- Possible announcement of a stock repurchase: the management's discourse in favor of a repurchase in the results conference call.

- The improvement in the demand for long steel in the domestic market: Optimism on the part of the company's management, together with prospects of higher government expenditure on infrastructure works, created a positive expectation for the sector.

Despite the materialization of some of the previously identified catalysts, such as the stock repurchase and the continuing scenario of healthy margins in North America, there was a series of very negative news regarding demand for long steel in the domestic market.

Among the many factors that drastically affected the demand for long steel in the domestic market, the following should be highlighted: (1) building work – after signs of a recovery in March, there was a significant slow-down in this sector as a result of the rising interest rates; (2) industry – a considerable part of the industrial segment supplied by the company is linked to exports, and investments were reduced after the strong appreciation of the Real; (3) agribusiness – highly affected by an unfavorable climate; (4) Government expenditure on infrastructure – growth much lower than expectations, with disappointing development in the area of Public-Private Partnerships (PPPs).

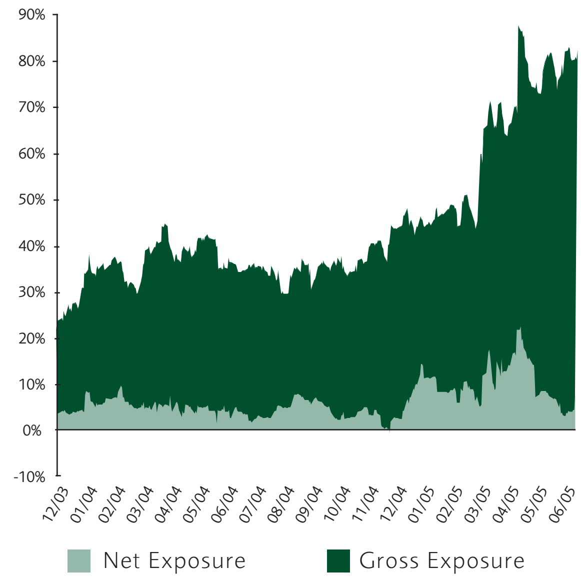
Despite the big drop in demand for long steel in the domestic market, the company benefits from an exceptional competitive position in this market (as described in detail previously), which should prevent a big fall in profitability from sales in Brazil. However, there is indeed an impact that cannot be ignored – there is a negative effect on the company's sales mix, and this makes the company more vulnerable. The percentage of sales allocated to exports may rise beyond the level of 50% (compared to expectations of something close to 35%). This reduces the protection of the business and consequently its soundness in the face of a potential trough in the cycle.

In view of the fact that an important catalyst for the operation did not occur, it was decided that the exposure would be reduced by approximately half (1%) the original position.

The only partial reduction is explained by the medium-term fundamentals (still very favorable), the relevant distortion between the price and fair value of the asset, and probable support generated by the repurchase of shares by the company, which will be kept open up to the end of the month of July, 2005.

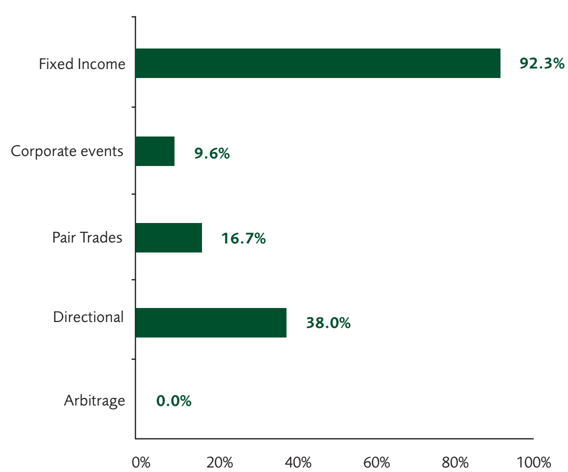
Exposure / Risk

In the quarter, the Fund's average level of exposure was increased (see chart below). At the end of the quarter, gross exposure amounted to 82.3% and net exposure, to 7.7%.



The exposure per strategy may be observed in the chart below. The quarter's highlight was the added exposure within the corporate event strategy.

The Fund's Exposure – June 30, 2005



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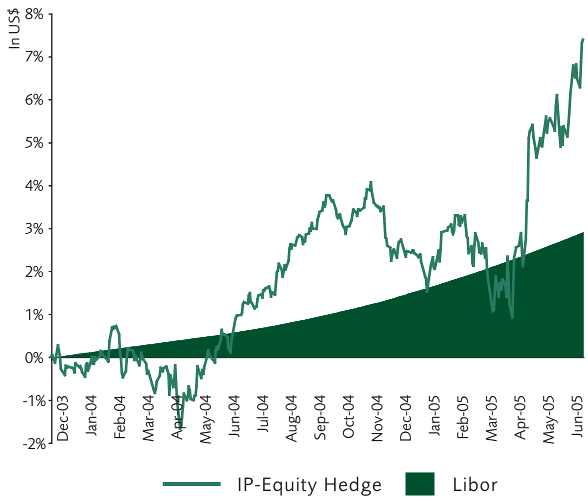

Performance (US$)	IP-Equity Hedge Brazil	Libor 1-month
June 05	1.94%	0.26%
May 05	3.17%	0.27%
April 05	0.55%	0.23%
March 05	-1.69%	0.24%
February 05	0.92%	0.20%
January 05	-0.10%	0.21%
December 04	-1.02%	0.20%
November 04	0.48%	0.18%
October 04	-0.25%	0.15%
September 04	0.73%	0.14%
August 04	1.08%	0.14%
July 04	1.27%	0.11%
2005 (YTD)	4.81%	1.42%
2004	2.42%	1.49%
12 months	7.23%	2.35%
Since inception(1)	7.37%	2.93%

(1) 2003, Dec 29

Informations

Structure

IP-Equity Hedge Brazil is a class of the IP Investment Fund, Ltd., an open-ended investment fund organized as a limited liability exempted company, incorporated under the provisions of the Companies Law (2001 revision) of the Cayman Islands.

Investment Manager: Investidor Profissional Gestão de Recursos Ltda.

Net Asset Value Calculator and Brazilian Custodian: Banco Itaú S.A.

Bank: UBS AG, Stamford Branch, CT (USA)

Registrar and Transfer Agent: UBS Fund Services (Cayman) Ltd.

Auditor: Deloitte & Touche

Inception Date: 29/12/2003

Investment Objective

The Fund's objective is to provide sophisticated investors returns above the one-month Libor in periods of one year through operations in the Brazilian equity market, while limiting the Brazilian currency and government default risk, by investing most of the principal in U.S. Treasury Bills and USD money market funds. The Fund expects to maintain little or no correlation to main equity indices.

Investment Strategy

The investment strategy is to seek distortions between the trading price and intrinsic value of the Brazilian equity assets. In order to identify those distortions, the main tool used will be the value-oriented, bottom-up analysis.

The Fund will hold long positions when it identifies assets that are under-valued by the market and short positions when it identifies assets that are over-valued by the market, always in comparison with the intrinsic value estimated by Investidor Profissional.

In addition, the Fund will seek arbitrage opportunities between assets issued by a company or group of companies.

The Fund will also invest opportunistically in shares of companies involved in corporate events, including, without limitation, changes in the shareholder control, mergers, spin-offs and absorptions.

Terms and Conditions

Subscription: Daily, in the first business day immediately following receipt of cleared funds and the Subscription Agreement.

Minimum Initial: US$ 100,000

Minimum Additional: US$ 50,000

Redemption: The Redemption Day for the IP Equity Hedge Brazil Class Shares shall be: If the original Redemption Form duly completed and signed is received by the Registrar and Transfer Agent on or before the 10th day of each calendar month (or the preceding Business Day, if eventually this day is not a Business Day) the Redemption Day will be the last Business Day of such calendar month.

OR

If the original Redemption Form duly completed and signed is received by the Registrar and Transfer Agent after the 10th day of each calendar month, the Redemption Day will be the last Business Day of the calendar month immediately following such calendar month.

Payment of redemption proceeds shall generally be made whitin 5 Business Days following the Redemption Day

Minimum Redemption: US$ 50,000

Minimum Balance Left: US$ 100,000

Fees

Management Fee: 2% per year of the Net Asset Value per Share, accrued daily and paid monthly.

Performance Fee: 20% above the one-month Libor, accrued daily and paid monthly or in the redemption, subject to a high water mark.

Additional Information

For additional information regarding the management of IP-Equity Hedge Brazil, please contact us by phone at (55 21) 2104-0506 or by e-mail at contactus@investidorprofissional.com

...Berkshire´s ownership may make even the best of managers more effective. First, we eliminate all of the ritualistic and nonproductive activities that normally go with the job of CEO. Our managers are totally in charge of their personal schedules. Second, we give each a simple mission: Just run your business as if: (1) you own 100% of it; (2) it is the only asset in the world that you and your family have or will ever have; and (3) you can´t sell or merge it for at least a century. As a corollary, we tell them they should not let any of their decisions be affected even slightly by accounting considerations. We want our managers to think about what counts, not how it will be counted. - Extracted from the book "The Warren Buffett CEO"

...but we have created an environment that allows CEOs to apply all their talents to what´s important. They do not have to devote his time or energy to board meetings, press interviews, presentations by investment bankers or talks with financial analysts. Furthermore, they need never spend a moment thinking about financing, credit ratings or "Wall Street" expectations for earnings per share. Because of our ownership structure, he also knows that this operational framework will endure for decades to come. - Extracted from the book "The Warren Buffett CEO"

In managing the portfolio of stocks he does buy, Simpson says he follows five basic principles. He outlined these timeless principles in GEICO's 1986 annual report, and he explained them at greater length in an interview with the Washigton Post the following year:

1. Think independently. "We try to be skeptical of conventional wisdom," he says, "and try to avoid the waves of irrational behavior and emotion that periodically engulf Wall Street. We don't ignore unpopular companies. On the contrary, such situations often present the greatest opportunities."

2. Invest in high-return business that are run for shareholders. "Over the long run," he explains, "appreciation in share prices is most directly related to the return the company earns on its shareholders' investment. Cash flow, which is more difficult to manipulate than reported earnings, is a useful additional yardstick. We ask the following questions in evaluating management: Does management have a substantial stake in the stock of the company? Is management straightforward in dealings with the owners? Is management willing to divest unprofitable operations? Does management use excess cash to repurchase shares? The last may be the most important. Managers who run a profitable business often use excess cash to expand into less profitable endeavors. Repurchase of shares is in many cases a much more advantageous use of surplus resources."

3. Pay only a reasonable price, even for an excellent business. "We try to be disciplined in the price we pay for ownership even in a demonstrably superior business. Even the world's greatest business is not a good investment," he concludes, "if the price is too high. The ratio of price to earnings and its inverse, the earnings yield, are useful gauges in valuing a company, as is the ratio of price to free cash flow. A helpful comparison is the earnings yield of a company versus the return on a risk-free long-term United States Government obligation."

4. Invest for the long term. "Attempting to guess short-term swings in individual stocks, the stock market, or the economy," he argues, "is not likely to produce consistently good results. Short-term developments are too unpredictable. On the other hand, shares of quality companies run for the shareholders stand an excellent chance of providing above-average returns to investors over the long term. Furthermore, moving in and out of stocks frequently has two major disadvantages that will substantially diminish results: transaction costs and taxes. Capital will grow more rapidly if earnings compound with as few interruptions for commissions and tax bites as possible."

5. Do not diversify excessively. "An investor is not likely to obtain superior results by buying a broad cross-section of the market," he believes. "The more diversification, the more performance is likely to be average, at best. We concentrate our holdings in a few companies that meet our investment criteria. Good investment ideas – that is, companies that meet our criteria – are difficult to find. When we think we have found one, we make a large commitment. The five largest holdings at GEICO account for more than 50 percent of the stock portfolio."- Commentary of Lou Simpson

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