FUND REPORT

IP-VALUE BRAZIL CLASSES

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.

The change in market value of the Classes IP-Value Brazil[1] and IP-Value Brazil II[2] positions in June amounted to 2.31% and 2.95%, respectively. Since February 26, 1993, when Investidor Profissional's management began, IP-Value Brazil Class has accumulated an appreciation of 1,178.19% – an average return of 24.69% p.a. In the same period, the Ibovespa recorded a performance of 14.86% p.a., and the MSCI Emerging Markets, 7.16%.

PORTFOLIO

During the second quarter of 2005, the percentage of the Classes' long position in equities was slightly increased, from 91% to 92% of the portfolio.

Concentration in the 5 major companies reached 58% of the portfolio, while the 10 largest represented 79%.

The portfolio's valuation is presently at historically low levels. The Classes' P/E[3] for 2005 is 6.8. The projected internal rate of return[4] for the next 5 years is at the level of 22% p.a. above inflation.

From the shareholder point of view, the Classes reached their highest level of protection, as measured by the percentage of the portfolio invested in shares with tag-along rights: 76%. In addition, 51% of the portfolio is invested in companies in which we elect, alone or jointly, members of the companies' administrative bodies (Statutory Audit Committees, Boards of Directors and Advisory Boards).

Below, we comment on the history of the fund's investment in Ambev's stock and its prospects.

AMBEV

We have been following this company closely for a long time, since before the merger that created Ambev. We admired the quality of the business, and especially the way the company has been managed since the 90's. With emphasis on results-focused management and meritocracy, they created a very successful model, which was copied by several Brazilian companies in the last few years.

We had been shareholders of Brahma in the past, and soon after the merger that created Ambev we perceived an opportunity. Excessively skeptical, the market did not price in correctly the synergies and the possibility of the merger being approved by CADE (the Brazilian anti-monopoly body). In the second semester of 2000, with CADE's approval and the synergies becoming a reality, the market priced the shares correctly and we sold our position.

During the following years, with the share trading very close to the value we considered fair, we did not invest in the company. However, we continued following its operational evolution closely. This permanent, continuous monitoring of the companies is fundamental in order to identify the moment when the shares start being traded at significant discounts.

In the second semester of 2003, the company's shares again started trading at an attractive price. Events that, in our opinion, were not sustainable in the long term reduced the company's profitability in the short term. Among them, we can highlight Nova Schin's aggressive campaign, both in terms of prices and marketing, and the drop in the volume of beer sold in Brazil – a consequence of the low temperatures registered in the period and of the country's economic situation.

The drop in short-term profitability depressed the price of Ambev's shares. We then started to acquire a participation in the company. First in common shares, which, because they have tag-along rights, guaranteed a strong alignment of interests with the controlling group. However, with the continued loss of market share (which we continued to look at as a non-recurrent event) and with a view to seizing the opportunity more quickly, we started to increase the position in

1 Net of all fees

2 Net of management fee

3 Price/Earnings Ratio. Company's market cap. divided by projected earnings. The lower the indicator, all else remaining constant, the cheaper the company.

4 IP Projection, based on the companies' projected earnings for the next 5 years (earnings yield), weighted by each company's participation in the portfolio.

the form of preferred shares, as they have significantly higher liquidity.

When the transaction between Ambev and Interbrew was announced, at the beginning of March last year, our position was divided between common and preferred shares.

The common shares, with the protection of tag-along rights, appreciated strongly, due to the option of selling them for 80% of the price offered to the controlling shareholders.

The share price rapidly converged to the proposed exchange ratio and the fund sold its common shares.

The impact of the announcement was diametrically opposite for Ambev's preferred shares, which fell around 35% during the 2 months that followed the announcement. We opted to maintain our position and to study the implications, both in respect of shareholder relations and value, in the light of the new scenario.

It is a fact that the price paid for Labatt was high, especially considering the price at which Ambev was trading at that moment; however, the market's reaction seemed exaggerated to us, and we sought to analyze the operation carefully and to re-work our valuation.

We concentrated the analysis on the prospects of the company acquired (Labatt) and on the future alignment of interests between Ambev's controllers and preferred shareholders.

Labatt's Prospects

Labatt was a subsidiary of Interbrew, a large, worldwide corporation. In the last few years, Interbrew had made various acquisitions and was much more focused on consolidating the world beer industry than on capturing efficiencies in its existing assets. We studied Interbrew's results over the preceding years and it was evident, both from their discourse and from the figures, that there were significant inefficiencies in the Labatt operation.

The Ambev team had built up an exceptional track record in management efficiency and the capture of synergies over the preceding years, with impressive results in integrating Brahma and Antarctica. This efficiency comes from the combination of talented personnel and a corporate culture with an obsessive focus on results.

It seemed to be the perfect union of an efficient team – with strong specialization in capturing operational gains – with an inefficient asset that had been managed far from its potential. The acquisition of Labatt gave rise to an interesting opportunity for Ambev to bring its operational capacity into a company that had hitherto hardly been efficient, such as Labatt.

Alignment of Interests

Ambev's preferred stock still does not ensure tag-along rights, but the relative importance of this lack of protection is significantly smaller at this time. The big corporate transaction in the company's history has already taken place, and at present Ambev is much more in the position of a company purchasing assets than selling them.

In addition, the fact that Ambev's executives continue to hold a significant part of their assets in the company's preferred shares, and will receive a significant part of their future variable remuneration in the same preferred shares, helps to ensure at least a minimum alignment of interests.

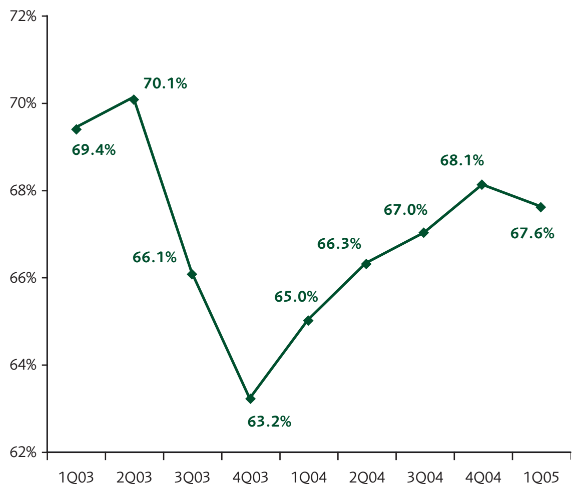
Our Standpoint

We took advantage of the excessively negative reaction of the market, after the announcement of the transaction between Interbrew and Ambev, to increase the portfolio's holding in Ambev's preferred shares as we regained our confidence in the investment.

The company's main business, beer in Brazil, presented excellent results prospects. Firstly, the recovery of its market share would naturally occur, considering that it was impossible for Schincariol to continue lowering prices and using a marketing budget beyond the company's capacity.

In the main beer operation in Brazil, the recovery of the market share did in fact occur in the course of 2004, as may be observed in the chart in the next page.

Ambev's Beer Market Share



As a consequence of this growth in market share and the recovery of the Brazilian beer market, the company can finally show significant scale gains.

The company had adopted a strong plan to cut down on costs and expenses throughout 2003. Part of this work had not yet appeared in the results, due to the loss of scale that resulted from the drop in volumes in that same year. With the return of rising volumes, the company started booking record margins again. In the first quarter of 2005, Ambev's operating cash-flow, excluding Labatt, rose almost 40% when compared to the same period of the previous year.

More detailed information on Labatt's synergies and operating gains was provided to the market, helping to increase confidence in relation to improved results.

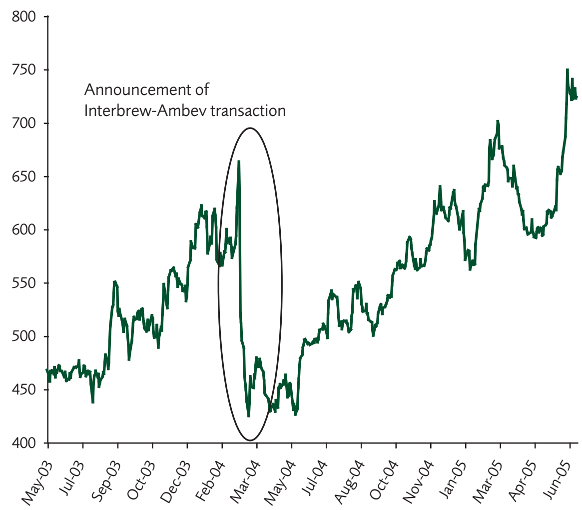
And the results have already shown up in the first quarter of 2005. Labatt's operating results rose by 32% in Canadian dollars; and the operating margin in the first quarter of 2005 reached 25%. A significant result, considering that the operating margin in the same period of the previous year was 19%, without Ambev's management.

With regard to shareholder alignment, security was increased in the following months with the announcement of a significant repurchase of shares. Ambev repurchased R$ 1.6 billion in preferred shares in 2004.

In addition, its controlling shareholder (Interbrew) recently announced that it intends to repurchase R$ 1.5 billion in Ambev's shares over the next twelve months.

This combination of factors led Ambev's preferred shares to show a strong recovery (as may be observed in the chart below) since the significant drop caused by the announcement of the merger between Ambev and Interbrew.

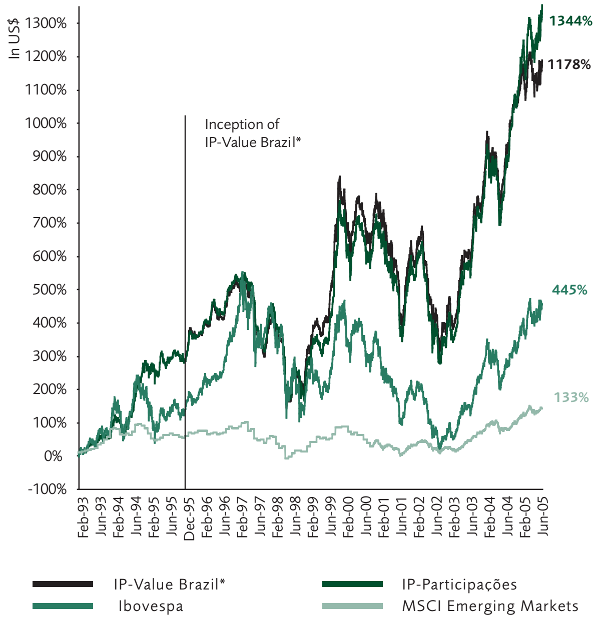
Evolution of Ambev Preferred Shares (R$)



The company has recently given its shareholders a stock dividend in common shares. All shareholders, whether owning preferred or common shares, have received one common share for every five shares held. Thus, Ambev's common shares, which had lost their liquidity completely after Interbrew's offer, are again trading with liquidity. As the common shares are trading at about 80% of the value of preferred shares, we exchanged a large part of our preferred shares for common shares. At this relative price level, the common shares ensure a dividend yield greater than preferred shares, in addition to offering greater shareholder security due to the tag-along rights.

Looking forward, Ambev gives us a safety margin with an attractive appreciation potential. The company belongs to a protected and very profitable sector. Its management is competent and has an excellent track-record for results. Prospects for results over the coming years are excellent. In spite of all this, the stock price does not fully reflect the company's solid fundamentals.

IP-Value Brazil* x Ibovespa x MSCI EM



* 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.

Performance (US$)	IP-Value Brazil II (2)	IP-Value Brazil (3)	Ibovespa	MSCI EM
June 05	2.95%	2.31%	1.45%	3.45%
May 05	2.70%	2.70%	9.25%	3.52%
April 05	-2.62%	-2.48%	-3.00%	-2.67%
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%
2005 (YTD)	2.19%	0.99%	8.65%	6.26%
2004	7.25%	28.11%	28.16%	26.28%
2003	–	87.65%	141.04%	56.35%
2002	–	-26.36%	-45.44%	-6.04%
2001	–	-7.58%	-25.00%	-2.37%
2000	–	-0.99%	-18.33%	-30.61%
Last 12 months	–	35.26%	59.24%	34.89%
Last 60 months	–	63.14%	15.30%	44.75%
Since 02/26/1993 (1)	–	*1178.19%*	*445.34%*	*133.31%*
Annualized Return (1)	–	*23.11%*	*14.84%*	*7.16%*
Historical Volatility (1)	–	*24.69%*	*44.04%*	*22.12%*
Sharpe Ratio (1) (4)	–	*0.82*	*0.27*	*0.20*

(1) Inception of IP-Participações
(2) Performance numbers of IP-Value Brazil II are gross of performance fee; inception on November 19, 2004
(3) Performance numbers of IP-Value Brazil and IP-Participações are net of all fees
(4) Sharpe Ratio is: (Annualized Return minus the annual 3-month T-bill return)/Annual Volatility

Structure

IP-Value Brazil II is a Class of IP Investment Fund Ltd, which is 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

Investment Objective

Obtain significant long-term absolute returns by investing long only in the Brazilian equity market.

Investment Strategy

- **We follow a disciplined, value oriented long-term approach.** We do thorough fundamental analysis to identify companies that are trading at far less than their intrinsic value.
- Our aim is to find Brazilian companies with the best combinations of:
  - Perfectly understandable business;
  - Above average long-term prospects;
  - Managed by people that are competent, honest and aligned with minority investors;
  - Trading at attractive prices.
- **Portfolio turnover is low**, we only buy after having done extensive analysis and developed great conviction. We usually keep our holdings for more than two years.
- **We are in close contact with the managers of our top holdings** in order to understand their motivations, better anticipate their behavior, and help in the matters we have competitive understanding. In some companies, we will work with the managers in order to improve:
  - Company relationship with the market;
  - Capital Allocation;
  - Corporate Structure (spin-offs, shareholder agreements, etc);
  - Alignment of interests (tag along, compensation structures, etc);

Investment Strategy (continued)

- **We invest in a concentrated fashion,** since we do not believe in diluting the best investment ideas with inferior ones. We think that investing without deep knowledge, for the sole purpose of diversifying, is far more risky than concentrating in those companies we have thoroughly studied.
- We do not associate risk with the inevitable short-term fluctuations in the market quotes of our positions.
- **We define risk as the permanent loss of capital** and believe the best way to minimize it is by:
  - Investing with a large margin of safety. Buying cheap enough as to afford waiting for price/value convergence while still making the investment worthwhile.
  - Not using leverage. We will never put our staying power in jeopardy to earn a few more percentage points.
- **We believe our main competitive advantage is having a different investment horizon than that of the market as whole, and sticking to it with discipline.** By focusing on the long-term and having a deep knowledge of the companies we invest in, we are able to take advantage of short-term market overreactions.

Terms and Conditions

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

Minimum Initial: US$ 250,000

Minimum Additional: US$ 100,000

Redemption: Last business day of each calendar quarter, subject to a previous notice of 30 business days. Payment of redemption proceeds shall generally be made within 10 business days following the Redemption Day.

Minimum: US$ 100,000

Minimum Balance Left: US$ 250,000

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

Performance Fee: 20% above 3-month Libor, paid at the end of each calendar quarter or in the redemption, through the automatic redemption of shares of each subscription corresponding to the due fee, subject to high water mark.

Additional Information

For additional information regarding the management of IP-Value Brazil II, 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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