



FUND REPORT

---

IP-EQUITY HEDGE BRAZIL

---

THIRD QUARTER / 2005



INVESTIDOR  
PROFISSIONAL  
DESDE 1988

This document is published exclusively for the purpose of providing information and conferring transparency to the management carried out by Investidor Profissional, is not the Offering Memorandum of the IP Investment Fund, Ltd. ("Fund") and is not to be considered as an offer for the sale of Shares of the Fund or of any other security. The Fund is prohibited from making any invitation to the public in The Cayman Islands to subscribe for any of its Shares. Shares may be subscribed for by exempted or ordinary non-resident companies or other exempted or non-resident entities established in The Cayman Islands. Shares of the Fund may not be offered or sold within the United States or to any US Person. The Fund may not be sold, redeemed or transferred in Brazil. The offer and sale of Shares of the Fund in certain jurisdictions may be restricted by law. Before subscribing for the Shares, each prospective investor should (i) carefully read and retain the Offering Memorandum of the Fund and the relevant Annex in respect of the Class of Shares; (ii) consult with his/her/its own counsel and advisors as to all legal, tax, regulatory, financial and related matters concerning an investment in the Fund. Past performance does not guarantee future results. Investidor Profissional takes no responsibility for the accidental publication of incorrect information, nor for investment decisions taken based on this material. Access to this document or use of the services or information provided herein is prohibited by any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law, rule or regulation.

## INDEX

---

<b>Introduction:</b> Making History	2
<b>IP-Equity Hedge Brazil</b>	5
Performance / Results	5
Informations	8
<b>Miscellaneous</b>	9

---

For those who have not followed closely the recent development of our capital market, we would like to describe a small but significant example of entrepreneurial and corporate evolution in Brazil: the first General Shareholders Meeting of Lojas Renner S.A. as a listed company without a defined controlling shareholder.

But first, it is worthwhile going back a little in time to write a short summary of this company's history. In the nineties, Lojas Renner appeared as a very promising investment alternative, known by only a few in the capital market, despite the efforts made by the company to get closer to the market. This forward movement was interrupted in 1998 by the announcement of the sale of its controlling stake to the US company J.C Penney, which, immediately after the acquisition, placed a tender offer for the remaining shares in the market. This attempt faced a lot of controversy and resistance on the part of a group of minority shareholders at the time. Since then, Lojas Renner has remained a listed company, though with reduced free-float and hardly any liquidity.

It was after these unedifying events that, in 2005, in an unprecedented initiative, the US multinational corporation decided to sell the company's controlling stake in the stock market – instead of selling it to a strategic investor, which has been the rule up to now in our market. Thus, for the first time, the existence of a Brazilian listed company with its stock held by a large number of small shareholders, and without a defined controlling party, became possible. In practice, there would be many shareholders, none of which would alone hold the absolute majority of the voting capital.

Some prior measures were necessary in order to structure the company's governance in this new corporate environment. Among these, we can mention converting all its stock into common shares; joining the Bovespa's New Market; forming a top-class Board of Directors, composed of competent professionals; and drawing up a remuneration program designed to align

the interests of the management with those of the company and its shareholders.

Following the recent successful wave of primary placements, the offer of Lojas Renner's stock was a success – both from the point of view of the controlling party, which sold its stake successfully, and the company's intention of having its stock held on a retail basis. The shareholder that acquired most shares had no more than 8% of the capital.

Once the offering was concluded, it was necessary to call an Extraordinary GSM in order to adapt some points in the by-laws, so that they reflected the changes that had occurred after the offering.

The matters to be deliberated were very simple and of merely bureaucratic in nature, but as it was the first meeting after the retail sale of the stock, it promised to be an unique experience.

The meeting was very innovative. In order for any GSM to be held at a first call, a legal minimum quorum is necessary – one quarter of the voting capital, in most cases – which in almost all Brazilian companies is achieved only with the presence of the controlling shareholder. However, as the quorum was not achieved, the Renner GSM could not be held, even though the company had been very pro-active and innovative, strictly following all the recommendations of good corporate governance: it encouraged its shareholders to attend the meeting, sending them detailed explanations of the subjects to be discussed, and also placing at their disposal proxies to represent them.

Some days later, at second call, the meeting was held with the legal quorum – any number of voting shareholders present. It shows that, despite the considerable evolution of the last few years – whether because of the active posture of some investors or due to developments in institutional investor regulations (the CVM and SPC) – the tendency for absenteeism in meetings of Brazilian companies stood out once again.

The number of shareholders present was very low. However, what most called one's attention was the fact that, in practice, the foreign investors (holding the majority of the capital) still find it difficult to exercise one of the shareholder's most important rights: the vote. That may be due to the bureaucracy – which really makes the whole voting process difficult, because there are various legal figures between the company and the shareholder (local custodian, depository bank, the requirement for documents to be certified by a notary and a consul abroad, and for sworn translations, etc...) – or especially because of the lack of knowledge of how to exercise the right to vote.

In the specific case of Lojas Renner, the second one seemed to us to be the greatest cause of difficulty. For example, there were cases of shareholders who, without any justification, instructed their proxies to vote against the proposals on simple issues, such as the case of the mere adaptation and consolidation of the by-laws, both measures that were necessary after the conclusion of the public offering.

After this Meeting, it was clear that it will not be enough for the Brazilian corporation to have "only" a pro-active and dedicated posture in relation to its shareholder base, encouraging, facilitating and explaining all matters comprising the agenda. In addition, it will be necessary to carry out a real educational crusade, describing step by step how and why to vote, and disseminating the fundamental importance of the vote in companies with shares held on a retail basis.

We believe that investors who aim and work for a more robust capital market should act not only as financial investors, but in fact as partners to the company, especially in the case of institutional investors, which have fiduciary duties in relation to their own shareholders or participants.

While the Brazilian market is still in its infancy in this field, we feel that one should support and develop

initiatives such as that of the management of Lojas Renner, which is highly committed to being in fact a transparent company, in which shareholders really take part in decisions in which they are involved – thus enabling the company not only to be a success case from the financial point of view, but also to become an example for the evolution and development of the Brazilian capital market.

Examples like the one mentioned above, and also the large number of initial public offerings in the last two years, show the progress and maturity of our capital market.

To this end, the contributions of the large variety of agents involved were necessary. On the supply side, controlling shareholders are accepting the dilution of their participation as a result of the entry of new partners; and, for that purpose, they have had to offer greater protection and fairness – which, in recompense, has improved the pricing of their shares and enabled them to access capital on a competitive basis.

On the demand side, investors are more careful and selective with regard to both the quality of the operations and the companies' corporate governance practices, and now apply discounts for the purchase of shares considered to be deficient in any of these aspects.

From the point of view of self-regulation and regulation, the Bovespa and the CVM have been playing no less important roles. Bovespa's launching of the New Market and differentiated levels of corporate governance, back in 2000, represented a landmark in our capital market. The simple idea that served as a base may be summarized as follows: better than facing a long and always controversial process of legislative change is to draw up a body of rules to which companies can adhere voluntarily and spontaneously.

With regard to the CVM, we have witnessed a regulatory body being increasingly agile and present, be it in rapidly taking a position in relation to matters of extreme importance to the market, be it in imposing

tough but correct penalties on those who do not comply with the law. The business environment in Brazil can now rely not only on good rules, but on rules that are in force and are obeyed. The improvement in enforcement has helped to reduce some of our highest costs: the sensation of false protection, and the suspicion that what is written does not count.

Finally, the effort and the work undertaken have now started to show effects that seem to us to be lasting and structural.

The best news is that we are just at the beginning of this process, and the funds managed by IP are well-prepared and positioned in order to benefit from this new leap in quality in our investment environment.

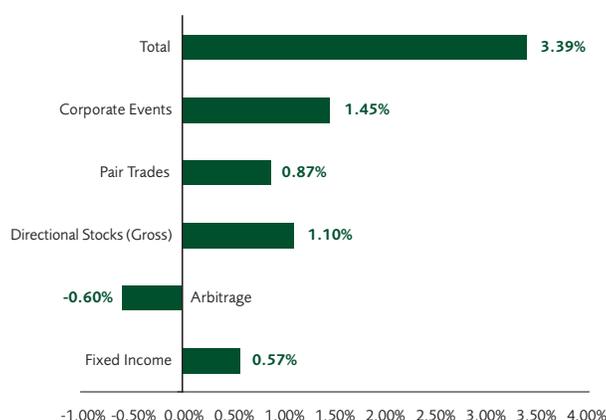
## IP-EQUITY HEDGE BRAZIL

IP-Equity Hedge Brazil recorded an appreciation of 3.77% in the month of September. In the year 2005, this Class has accumulated an appreciation of 8.37%. Since its inception on December 29, 2003, the IP-Equity Hedge Brazil has accumulated an appreciation of 11.02%.

### PERFORMANCE / RESULTS

The objective of IP-Equity Hedge Brazil is not to generate positive returns every month, but rather to achieve consistently high returns in longer periods of time.

The quarter was marked by the coming to maturity of some of the Class' investments. In this quarter, the IP-Equity Hedge Brazil recorded gains in all its strategies, as shown in the table below:



The main positive contributions in the quarter resulted from two operations: the long position in Banco do Brasil subscription warrants, whose rationale is described in the management report for the 3rd Quarter of 2004; and the long position in common shares of Brasil Telecom Participações, whose rationale is described in the introduction to the management report for the 2nd Quarter of 2005 ("Tag Along" text).

Two pair trades in the retail sector, whose rationale is described below, also made a positive contribution to the IP-Equity Hedge Brazil's performance in the Quarter.

### Long position in Pão de Açúcar (PCAR4) and Lojas Renner (LREN3) and short position in Lojas Americanas (LAME4)

Average exposure: 3.0 %

A description of the fundamentals and the potential catalysts for the assets involved in the operation follows.

#### Stock purchased: Pão de Açúcar

Pão de Açúcar is at present the largest Brazilian retailer and has strong competitive advantages, especially in the aspects of location and scale. Its historical pioneering posture within the sector, together with a series of acquisitions in the last few years, has given the group not only unique locations – for which it would be difficult to find equivalents – but also a significant scale of operations, which gives it advantages in negotiations with suppliers.

The rush to be in the forefront of the sector's consolidation process was a historic opportunity; however, if on the one hand it led the company to a position of unquestionable leadership in the sector, on the other it cost the company a great deal in terms of profitability. High acquisition costs, together with a slowdown in the economy, had a negative impact on the company's results and returns, which was naturally reflected in the stock price, which depreciated significantly.

Despite this not very encouraging history, some recent events have shown that the company was at a breaking point with regard to corporate strategy and the alignment of interests among shareholders.

An operation was recently carried out in which the controlling party sold part of its stake to a strategic investor, realizing most of the control premium it was entitled to. From now on, the controlling party's remaining stake is strongly linked to the market price of the stock, resulting in substantial alignment between that party's interests and those of the minority shareholders.

Another important point is the fact that most of the sector's consolidation process has already taken place. After the acquisition of Sendas by Pão de Açúcar and Bompreço by Wal-Mart, few significant assets remain to be acquired in the sector. The remaining potential targets, such as Sonae, seem to be closer to the Wal-Mart chain, which is thirsty for acquisitions in the country.

Pão de Açúcar's posture is also directed less and less towards growth. The focus now is on increasing returns on the existing assets, with the implementation of EVA and the adoption of various measures aiming at increased profitability.

Historically weak results and the fact that the company, unlike its competitors, publishes its monthly sales every month, caused the stock to trade at a big discount in relation to its fair value. The weak sales in the current year were more than incorporated in the stock price. Our view was that the measures adopted and the corporate alignment provided a significant positive catalyst for the stock.

#### **Stock purchased: Lojas Renner**

As already described in the IP-Participações report, we believed in Lojas Renner's fundamentals at the time when the company was put up for sale in the Tender Offer carried out at the beginning of July.

The company is well positioned within a profitable sector, with competent managers aligned with the shareholders; and, unlike other offerings that were very well priced, the Lojas Renner operation was made at an attractive valuation, in which future

prospects for an increase in the productivity of the existing stores, credit expansion, offer of new financial products and geographical expansion were not yet fully priced in. The company's results for the second quarter would be an important moment to confirm its quality and for greater communication of all these prospects.

#### **Long position: Lojas Americanas**

In order to protect against market risk in the long positions in Pão de Açúcar and Lojas Renner, we put together a short position in Lojas Americanas.

Lojas Americanas has recorded exceptional results over the last few years, going through a very well executed turn-around with a strong focus on reducing costs and expenses, which greatly leveraged the company's profitability.

These spectacular results raised its stock price to a very high level. The company, in our opinion, had been priced for perfection.

The prospects at that moment were certainly interesting. The profitable model, already put to the test, could be leveraged by opening new stores, and the Internet operation would continue growing at high rates. Our interpretation was that all these benefits had already been priced in.

With trading at this price level, any negative news would affect the stock price. The results for the second quarter of 2005 would be a negative catalyst, in our view, considering that sales should be weak (as already indicated by the monthly sales of other retailers, such as Pão de Açúcar) and the operating growth modest, given the high level of profitability already reached.

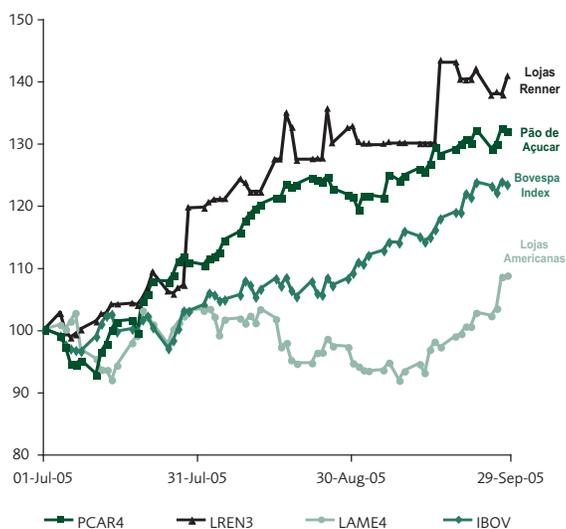
#### **Results**

From the time the operation was put together, the two long positions (Lojas Renner and Pão de Açúcar) have had a performance significantly above the market. The results of the two companies for the second quarter

and more detailed information about future strategies constituted positive catalysts for the stock prices.

The short position in Lojas Americanas, which was priced with a valuation noticeably higher than the other two, showed a weaker result, which confirms that it will be increasingly difficult to realize significant gains from the present level.

In the graph below we can observe the behavior of the stocks since the operation was put together in the quarter.

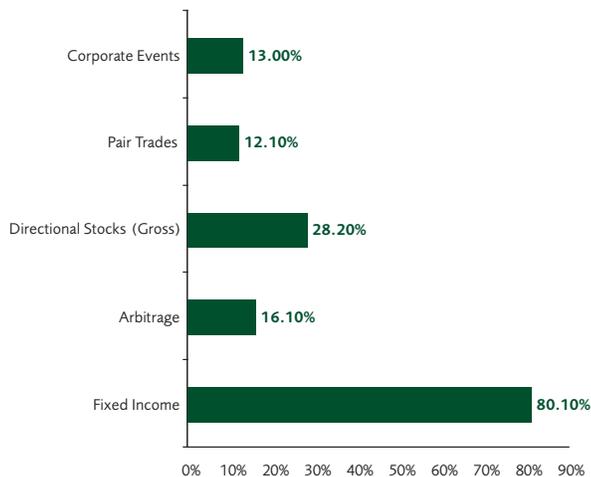


Because of the operation's positive performance, we opted to partially liquidate it and realize part of the profits.

### Exposure / Risk

In the quarter, the IP-Equity Hedge Brazil's average level of exposure rose considerably. At the end of the quarter, gross exposure amounted to 119.1% and net exposure, to 19.9%.

Exposure per strategy may be observed in the graph below.



## IP-EQUITY HEDGE BRAZIL X LIBOR 1-MONTH



Performance (US\$)	IP-Equity Hedge Brazil	Libor 1-month
September 05	3.77%	0.31%
August 05	1.41%	0.32%
July 05	-1.75%	0.27%
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%
2005 (YTD)	8.37%	2.33%
2004	2.42%	1.49%
12 months	9.48%	3.15%
Since inception(1)	11.02%	3.85%

(1) 2003, Dec 29

### 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 undervalued 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 within 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](mailto:contactus@investidorprofissional.com)

## MISCELLANEOUS

---

"Munger: I don't want you to think we have any way of learning or behaving so you won't make a lot of mistakes. I'm just saying that you can learn to make fewer mistakes than other people – and how to fix your mistakes faster when you do make them. But there's no way that you can live an adequate life without (making) many mistakes"

"Munger: To the extent you become a person who thinks correctly, you can add great value. To the extent you've learned it so well that you have enough confidence to intervene where it takes a little courage, you can add great value. And to the extent that you can prevent or stop some asininity which would otherwise destroy your firm, your client or something or someone that you care about, you can add great value"

Outstanding Investor Digest, 1998

"Poor investment strategy, whether it is for lack of diversification, pursuing hot stocks, or attempting to time the market, often stems from investors' belief that it is necessary to *beat* the market to do *well* in the market. But nothing is further from the truth. The principle lesson of this book is that through time the after-inflation returns on a well-diversified portfolio of common stocks have not only exceeded that of fixed income assets but have actually done so with less risk. *Which* stocks you own is secondary to *whether* you own is secondary to *whether* you own stocks, especially if you maintain a balanced portfolio. Over time the historical difference between the returns on stocks and the returns on bonds has far exceeded the differences in returns among well-diversified all-stock portfolios."

Extracted from the conclusion of the book *Stocks for the long run* by J. Siegel

---



Av. Ataulfo de Paiva, 255 / 9º andar Leblon  
Rio de Janeiro RJ Brasil 22440-032  
Tel. (55 21) 2104 0506 Fax (55 21) 2104 0561  
[contactus@investidorprofissional.com](mailto:contactus@investidorprofissional.com)  
[www.investidorprofissional.com](http://www.investidorprofissional.com)