Fund Report

VBF Class A and VBF Class C

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In this first management report for 2008, the year of IP's 20th anniversary, we used the international credit crisis as a background to reflect upon the general behavior of the market agents and illustrate that, for IP, the management of risk is strongly intertwined with our daily and absolute commitment with the quality – current and future – of our analysis process and investment decision making.

- According to our experience, there is not algorithm or 'triple A rating' that could replace the common sense and discipline in risk management. We usually pay a high price for the illusion of precision. We believe, like Keynes and Buffett, that "*it is better to be roughly right than precisely wrong*".
- The great financial institutions downfalls arise, in short, from motivations, incentives, judgments and behaviors of **people**. Flesh-and-bone folks: shareholders, executives, employees and other stakeholders.
- To understand a little bit more of our daily investment routine, getting closer to IP's 'inner workings', can hopefully help the reader to understand how we end up mitigating some very important risks without even needing to speak formally and explicitly of "risk".
- For IP, our 'risk management' is deeply intertwined with our day-to-day activities. We believe our key risk mitigation process is, simply put, our strong commitment with the quality – current and future – of our analysis process and investment decision making. The fact that a significant amount of IP partner's wealth is invested in the funds is also very relevant. In this regard, we fully agree with Bernstein: "Risk is a choice, not a fate".
- At IP we cherish the habit of "permanent preparation", which is slowly accomplished, in 'baby steps', throughout time. We believe that this "always alert" frame of mind help us to "connect the dots" fast when the planets get aligned and the big opportunities arise.
- We have learned, with each of our mistakes, that it is extremely healthy to be suspicious of ourselves and of our own certainties. The surest we are of a matter, the more actively we seek counter-evidences that may eventually prove us wrong. Over time this is a very efficient 'risk control' tool.

In this report investors will find an update on the Telemar investment case, a relevant holding in both VBF Classes A and C. Also, investors can find a brief description of Casa Show S.A., the new VBF private equity investment announced last February. As of March 31st, private equity investments represented 4.12% of VBF Class A (Mills and Casa Show) and 1.27% of VBF Class C (Casa Show).

DOING WHAT MATTERS

Paris, early January 2008. A big celebration was taking place. The second largest French bank, distinguished worldwide by its expertise and sophistication in risk control, was elected the Company of the Year by the specialized magazine Risk. Christophe Mianne, head of the market activities, kindly agreed to give an interview: "With one of the largest exotics books on the Street, one would imagine that Société Générale (SG) would be licking its wounds and coping with hundreds of millions of euros in losses. There was some impact, but the losses have been relatively minor and entirely manageable". And then added proudly: "We managed the existing book very well because we decided some time before the crisis to be long volatility and be less sensitive to correlation, so the losses were minimal. (...) Overall, our trading activities will be approximately flat compared to last year, which is a good performance".

Less than three weeks later, on January 24, the SG's Chairman would inform the market that, in view of the "sophisticated and fraudulent transactions carried out by an employee acting much beyond his authority", the institution had lost over US$7 billion.

As we all know, SG was not the sole "victim" to incur debilitating losses throughout the past months. The list of venerable investment houses that lost several billions of dollars recently is, in fact, quite large. Interestingly, on the following day after the disclosure of SG's loss, Risk Metrics – yes, the company behind the homonymous risk control methodology developed in the early nineties within JP Morgan, IPOed in great style – with its stock price rallying 35%. Risk Metrics was the great responsible for making the concept of Value at Risk (VaR), which many large banks (and asset managers) use to evaluate the expectation of maximum loss that its portfolios may experience in days considered as "normal" (typically by 95% or 99% of the days), quite popular.

The driving force behind Risk Metrics stock price momentum was a very simple and, at first sight, very intuitive and powerful line of reasoning: from now on, banks and asset managers will need to invest even more in risk management tools and infrastructure, hire more and more risk managers and carry out more comprehensive and stronger stress tests, contemplating a higher number of scenarios.

Nobody seemed to care very much about the fact that the losses experienced by large investment banks both in the third and fourth quarters of 2007 exceeded by far the estimates of the nominal VaR designed by their risk departments. Curiously, Goldman Sachs, who had the largest nominal VaR of the group, was the one that suffered less in view of the expectations, while some of its peers were virtually "swept" under the Fed's rug.

And sure, strictly speaking, they should not care at all: in its most widespread version, VaR is already designed in such a way to ignore a priori what happens in atypical periods or, statistically speaking, at the ends (or "tails") of the distribution of returns of the investment portfolio. Translating into straight English: VaR evaluates the damage that may occur to the portfolio in typical days, but it is not designed to deal with what happens in disruptive market conditions. Quoting an US investor: "VaR is an air bag that works all the time, except when you have a car accident".

However skeptical we might be with respect to the practical value of quantifying risk via statistical models, whether parametric or not, Gaussian or Bayesian; this short essay does not aim at challenging the scientificity, accuracy or epistemological merit of the quant tool-box.

The inconsistencies and limitations of VaR (in its various forms), Monte Carlo simulations, stress tests and alike we prefer to outsource to the *flanêur* of the hour, the Lebanese Nassim Taleb. The former quant trader, a declared critic of the existing quantitative risk models, is enjoying days of glory at a time when, once more "fooled by randomness", large banks give in when facing a highly improbable "black swan" type event.

Besides, we don't want to – nor could we – judge or disdain from the top of an alleged "superior" knowledge, the decisions taken by the A or B market players before and during the credit event and the volatility shocks related to them. Ex-post, after the "bubble" burst, it's easy and quite convenient to retell the tale taking a leading, 'hero' role. We can't. In fact, at IP we did not foresee most of the events, and grossly underestimated both the timing and the magnitude of their impact. In this regard, we were at least as 'surprised' as anybody else. However, this does not prevent us from availing ourselves of facts occurred to reflect on what has happened and thus possibly preempt future mistakes of judgment and conduct.

We would like to emphasize, the most pragmatic and, unfortunately, recurrent side of the history: that the great institutional downfalls arise from the **motivations, incentives, judgments and conduct of people**. Simply put, it's all about flesh-and-bone folks: whether they might be shareholders, executives, employees, regulators or other stakeholders.

Let us agree: the problem in the specific case of VaR, is not its use by the financial institutions as a "risk" measure, but the excesses caused by the generalized sense of (false) "safety" that results from its blind and indiscriminate use, encouraging market agents to take risks that are "significant but remote". The kind of risk that can get you killed.

To illustrate this point of view, a recent example: the annual report of one of the large US banks that suffered with the credit crisis stated - "The computed VaR estimates do not include the exposure of the bank to CDOs". Only to continue: "The CDOs were not included in the account of VaR because it is extremely difficult to evaluate its risk". Amazing.

Now, since the bank's CDO exposure hovered around US$40 billion, it's quite fair to state that this "small" concept loop changes the institution's risk profile very much and should work as a red alert to the regulatory and inspecting bodies. If we agree with the vision of Benjamin Franklin that "it takes a small leakage to sink a big ship", let alone a giant hole in the hull. The great exposure to CDOs with unknown risk profile would ultimately cost that institution annual losses of around US$20 billion.

At first, it may be difficult to understand what leads smart, intelligent and well prepared people, build significant, relevant positions in opaque structures such as CDOs, CMBS, CDOs2, and SIVs' about which they assumedly and explicitly do not know the risk profile. However, the answer is very simple: the good and old greed ultimately leads to imprudence.

And why entities such as rating agencies did not, throughout that credit "bubble", sound the alarm? Clearly, the agents' impetus was magnified by the excessive trust put on banks by the financial system watchdogs.

Under-structured and, in some cases – such as the rating agencies – experiencing a clear conflict of interests, such entities saw in the VaR estimates a shortcut to the objective measurement of the underlying risks of the portfolios of financial institutions. And when asked about the soundness of specific banks, they stated with conviction: "it is alright, they are hedged".

In fact, in view of its financial limitations, lack of information systems, insufficient staff (in number and quality), these bodies simply cannot, from a practical standpoint, suitably monitor large financial institutions.

If they cannot evaluate neither their balance sheets nor their "stock" of security portfolios, let alone the continuous "flow" of cash/assets/liabilities, and especially their "structures" and off-balance sheet vehicles of Byzantine complexity, how can they provide an objective opinion on the nature and the real magnitude of the risks incurred by the large financial institutions?

How could we expect that the rating agencies played on a proper manner their statutory role of objectively analyzing credit if their actual **incentives** go in another direction? With operating margins on the 50%+ realm and directly benefited by the proliferation of the "structured products" market, the agencies were not exactly 'alignned' with the soundness of the financial system.

Even worse, on account of their privileged and exclusive access to confidential data of the U.S. companies – ensured by "Regulation FD" – the agencies were (and still are) perceived by the market participants as entities in better condition to **judge** the risks of assets.

This perception caused the avid "market", to judge that the risk rating provided by the agencies was sufficient and based on the best possible information. That is to say, the "market" **outsourced the due diligence** of the assets, blindly accepting the opinion of entities in conflict and far from being properly structured and equipped. All in all, it was like putting a mouse in charge of supervising an Anaconda while knowing the rodent could potentially get a slice of cheese for every new endeavor of the beast. How could it work?

As a result, **people** bought securities tagged as AAA, but "took home", in fact, BBB or worse. More precisely: they believed they were buying AAA's, but it was not possible to know what they were really "getting" and, on aggregate, the true nature and the dimension of the risks in portfolio became simply not assessable.

In short: once more in the recent history, the perspective of high gains exacerbated by the behavior of market agents caused people – in behalf of other individuals and legal entities – to become more willing to take excessive or unknown risks, to the extent of compromising the very survival of their institutions.

Managing Risk: Sensitivity and discipline

In times as the current one, when 'Mr. Market', which Ken Fisher defines well as "The Great Humiliator", shows its clutches – volatile and mercilessly disruptive, our main source of comfort and line of defense is the faithfulness to our investment philosophy.

Throughout these past almost 20 years we have sought to follow in a very disciplined fashion a value oriented investment philosophy with a long-term investment horizon, supported by independent, fundamental research. Frankly speaking, at IP we have never been much interested in measuring risk. On the other hand, we are very concerned with risk management. There is a huge difference between both approaches. In our experience, there is no algorithm or triple A rating that can replace common sense and discipline. The illusion of precision is usually expensive. We believe, like Keynes and Buffett, that, "it is better to be approximately right than precisely wrong".

At IP, risk management is far from being a hermetical process, 'siloed' in a function, department or set of mathematical formulas: it is organically embedded in the way we work in a daily basis. Not very fancy, but that's all there is.

According to Buffett, "Risk comes from not knowing what you're doing" and, many times, the so-called operating risks are much more decisive than the market risks or specific risks "measured" by pretentiously precise quantitative models.

Throughout the 2008 quarterly reports, we expect that while explaining a little bit better the way we work, we could hopefully facilitate the understanding of how we can mitigate some important risks without the need to formally and explicitly even speak of "risk".

In our understanding, to deal rationally with a world where uncertainty and risk are the given conditions of the game, involves, by one side, accepting our cognitive and predictive constraints and limitations. On the other hand, it requires a commitment with the continuous improvement of the quality of our investment analysis and decision making process.

Investing is essentially a prospective exercise, whereby the capacity to ponder and judge the probability of occurrence of future events has great importance. The very core of our job consists in evaluating with diligence and common sense the information available in face of each investment decision. And, based on an expectation of favorable risk/return, act.

Obviously, we do not get it right all the times. Occasional failures are something implicit in the rules of the game. The big question is how we get prepared, so that, systematically and consistently, in view of each individual investment decision, we have the information and the judgment that is enough to appraise and decide the best course of action. We have full conviction that, in the long run, the quality of the generating process of each of our investment decisions, one by one, is the main driver of investment outperformance.

Unfortunately, there are few investors who seek to deeply understand the generating process behind the results of the funds they invest in. Most of them are exclusively concentrated in the observation and analysis of "performance" – especially that of short term – used as a proxy of the ability to generate future results. But as Taleb puts it: "History is opaque. You see what comes out, not the script that produces events, the generator". And yet, without knowing the "whys" and the "hows" behind the results, how can you possibly judge future performance?

We fully agree with Bob Rubin, former Secretary of the US Treasury and former co-CEO of Goldman Sachs:

"... Any individual decisions can be badly thought through, and yet be successful, or exceedingly well thought through, but be unsuccessful, because the recognized possibility of failure in fact occurs. But over time, more thoughtful decision-making will lead to better overall results, and more thoughtful decision-making can be encouraged by evaluating decisions on how well they were made rather than on outcome"."

In this regard, we strongly believe that the most effective tool of IP's "risk" management is simply our deep commitment and dedication to the quality – current and future – of our analysis and investment decision-making process. As simple as that.

Within IP: Network, Processes and Discipline

Today, almost 20 years since its foundation, IP remains faithful to its principles: rationality, patience, discipline and independence. It is still proud of presenting itself, whether in Brazil or throughout the world, as an independent, specialized institution focused on managing equities, that makes investment decisions based on value oriented, fundamental analysis with a long-term investment horizon. We rely mostly on disciplined hard work, which today is, of course, supported by some expertise, knowledge and common sense that usually arises after nearly two decades 'in the road' doing more or less the same type of work.

When we started, the mere evocation of these principles and management style made us naturally different from the other managing companies in Brazil. In fact, "equity-focused asset managers that do fundamental analysis" was a motto more than sufficient for us to be perceived as a clear "stranger" in what was then a very small market, where "tips" and "schemes" prevailed, and tiny equity portfolio managers wannabes operated in the shade of the giant fixed-income managers.

Throughout the nineties, after the Brazilian stock market reached a certain size and maturity, several asset management companies arose with investment approaches similar to IP's, which, very welcomed, contributed to the expansion of our market niche as a whole.

All through these years, the mix and the structure of the equity funds offered in the Brazilian market changed significantly, as well as the competitive environment: what was previously a self-bounded parish with its "local" peculiarities became a global arena. Today, foreign funds thirsty for returns that seem hard to be found in 'their' original markets "invade" "our" yard, investing massively in shares of Brazilian companies.

This process did not catch us unprepared. Since the mid 90's, we sought to actively promote the inclusion of IP at the international level, whether from the analysis standpoint, through investment benchmarking (following fund managers and companies in the retail, consumer goods, education and health sectors), as well as from the investor relations and institutional standpoint: structuring off-shore funds and building a high-level network. As a direct result of that global inroad, both our Equity activst and Long/Short portfolios received the participation of American, European and Asian investors, with some of whom we have today a relationship not only as suppliers of asset management services, but as strategic partners.

The exchange of experiences with investors and foreign partners, combined with the continuous study of companies and sectors from several countries had a very positive internal transformation power. It allowed us to access to new perspectives, tools and *modus operandi* that were incorporated into our daily life. Consequently, we were able to evolve relatively fast in areas such as information systems, compliance and analysis.

The interaction with international players, whether they are other funds, funds of funds, endowments of universities, etc., showed us that IP is ready to operate on a global level, even if it still strongly focuses, for historical reasons and legal restrictions, on Brazilian assets.

However, the most important finding was to perceive that the work process of the analysis and management area, the heart of the company, is still a very positive point, from both the absolute and relative standpoints.

And wherefrom we derive this comfort, if IP is far from being the sole company proclaiming itself as an adept of "fundamental analysis" with "long term focus" and "value oriented"?

The answer is simple: our trust and comfort comes from a set of "tiny little things", of nuances and details of our inner workings that, on aggregate, ensure the **disciplined execution** of our investment mandate while respecting our founding principles.

Among the daily micro-practices that define us as investors, the awareness of our cognitive, analytical and informational limitations is, by far, the most relevant one. First, because by systematically and structurally doubting our "knowledge", we avoid the excesses of excitement and confidence with respect to our investment ideas. Second, because the internalization of that belief lead us to channel our efforts to the development of process, systems and methods that mitigate these limitations. As usual, pretty simple stuff.

We believe that true, sincere intellectual humbleness is critical so that we may approach **each investment decision as it was the first**, without the arrogance of the "I already know that", "it works like this" frame of minds. It seems easy, but it is not. In the investment world, it is relatively common to experience absolute and relative financial success very early In life. As a result, it's quite common to start to take yourself too seriously, to believe that you have almost "magic" talents and abilities. A deadly chain of thought that cannot only impair you intellectually, behaviorally and socially, but ultimately hurt you big time as you get betrayed by your own (mis-)judgments.

Obviously, the experience of investing for more two decades have made it possible for us as a team to build a sort of 'rapid cognition tool-kit', certain cognitive shortcuts that save our time and make it relatively easy to understand, frame and even solve investment problems. It is common in view of a "new" situation to quickly recognize standards similar to those we have already experienced in other cycles, sectors, business, geographies, corporate contexts, etc. But this 'blessing' that comes with hard work can also make you lazy and blind. Laziness, self-sufficiency and arrogance may cause disastrous decisions. We believe, just like the physicist and outstanding professor Richard Feynman, that "The first principle is that you must not fool yourself – and you are the easiest person to fool".

In these almost 20 years, we have learned with each of our mistakes that it is desirable and extremely healthy to be suspicious of ourselves and our own certainties. The surest we are of some issue, the more actively we seek counter-evidences that eventually prove us wrong or at least raise a "reasonable doubt". A simple assertion or conjecture disguised as a 'thesis' can make or break an investment case.

According to our own experience and the example of investors we admire, this additional effort with "Popperian" strictness (actively trying to check if our propositions are falsifiable) pays off – and very much. Munger, the always sharp Vice-Chairman and partner of Buffett at Berkshire Hathaway has a memorable passage on the usefulness of such behavior:

"The great example of Charles Darwin is that he avoided the confirmation bias", that is to say, Darwin avoided to fall in the trap of corrupting the results of his research collecting and interpreting information in such a way to validate his initial conjectures. Darwin doubted of himself, actively seeking data or perspectives that "disconfirmed" his propositions".

And Munger adds: "the great example of Charles Darwin is he avoided confirmation bias. Darwin probably changed my life because I'm a biography nut, and when I found out the way he always paid extra attention to the disconfirming evidence and all these little psychological tricks. I also found out that he wasn't very smart by the ordinary standards of human acuity, yet there he is buried in Westminster Abbey. That's not where I'm going, I'll tell you. And I said, "My God, here's a guy that, by all objective evidence, is not nearly as smart as I am and he's in Westminster Abbey? He must have tricks I should learn."

To assume that, by definition, we cannot know everything we need and would like to, in a world where relevant information is abundant, but disperse, and time, attention and individual "processing" capacity are finite, is a first and very important "liberating" step. But how do we proceed from this point on? How to transform that restriction in a driving force?

We believe, like Bob Rubin, that "(...) rejecting the idea of certainties and needing to make the best judgments possible about probabilities, should drive you restlessly and rigorously to analyze and question whatever is before you - and to treat assertions as launching pads for analysis, not as accepted truths – in pursuit of better understanding."

At IP we seek to fight our structural cognitive limitations acting with discipline and dedication in 4 fronts:

1) Investing our attention in the acquisition of "**frameworks**", "**mental models**", "**vocabularies**" and information of several disciplines, industries, companies, geographies, business models, vehicles and investment structures.

These resources form a tacit knowledge mosaic that: a) creates context(s) for us to understand and organize the innumerable stimuli we receive, helping distinguish what is relevant and what is not; b) functions as a repository of information with potential to be used in the future; c) encourages our creativity, providing us with perspectives and starting points different from the "average view" for everything we do.

The experience shows us that we take **very long** to learn and organize new ideas in such a way as to use them on a functional, actionable manner. Therefore, we encourage all in the team to keep track of companies, businessmen and fund managers they admire, to regularly read on the most different subjects and travel frequently, as well as to keep in touch with people with more experience and knowledge than us in matters that are of our interest now or that have a good chance to draw our interest in the future.

At IP, we really nurture the daily habit of "permanent preparation" which is accomplished very slowly, little by title, baby step by baby step, throughout time. We believe that this "always alert" mindset help us "connect the dots" quickly when the planets align and the big opportunities arise.

We follow Munger's advice: "In my whole life, I have known no wise people (over a broad subject matter area) who didn't read all the time – none, zero... You'd be amazed at how much Warren reads – at how much I read. My children laugh at me. They think I'm a book with a couple of legs sticking out."

And let us agree: besides the reading, there are various interesting and enriching experiences that help us be prepared to take advantage of the very few big opportunities the market might offer us.

2) Building up and developing a local, national and international "intelligence network".

Although we truly appreciate Renaissance-like generalist wisdom, both individually and as a 'closed' group we do know that at IP we are not even close to knowing in-house what would be considered 'sufficient' about several matters that drive and influence investment decisions.

According to our experience, it is not very "wise" to leave out of consideration, in a strict process of evaluation of investments, the input of people who know much more than you about some key points of your analysis. A tiny, single judgment error can jeopardize a whole investment thesis.

Sure, many times some of the marginal knowledge required is indeed in-house: for example, we have among partners and employees, specialists in governance, regulation, structuring of deals, marketing, commercial, information technology and operations, which assist upon demand the analysts of all sectors in their projects. Each partner of IP has a set of functional expertise and abilities that add value to the group.

However, there are also thousands of formal and informal specialists spread throughout Brazil and worldwide. They are former company administrators, regulators, shareholders, investors, consultants. They are very useful on several manners: as independent source of information on companies, people background checks (administrators, shareholders), as 'devil advocates', for specific aspects of an investment thesis, and are also useful to make us get quickly up to speed with respect to relevant themes that take place in countries different from ours.

The value of that network is immeasurable. Building it up and nurturing it requires precious time and effort. To replicate it is not easy. Our almost 20 years of existence and the tradition of supporting the companies where we invest in, respecting their managers and shareholders help us a lot.

3) Developing and improving systems and processes that help to process "in parallel" the information gathered collectively.

At IP we are highly concerned with the storage and the flow of the information we generate, and that is so precious to us. There is no use in gathering lots of information generated by the "permanent prospecting" of analysts described in (1) and the "intelligence network" mentioned in (2) if both the information and the analysis are not prepared and stored in such a way as to be easily accessible in the time and place where the "end user" effectively needs to use it.

Besides, this information is much more valuable when it is disclosed to the right people and generates discussion and reflection among the internal and external members of the "IP Network". This interaction magnifies relevant 'marginal' knowledge generant.

With this purpose in mind, we created 5 years ago, an intranet that allows the synchronous participation (in real time) and asynchronous (the information is stored and the user participates when it is more convenient) of partners, employees of IP and selected guests, and it is accessible from anywhere in the world.

The system itself is **very** simple. The key to make it work is the relentless willingness to make it happen. It took a lot of time to get widespread adoption. But once it did, it became part of our lives. Gains in terms of organization, productivity and alignment of the group have been significant.

4) Really doing what we say we do: following in a relentless, disciplined way a value oriented investment philosophy with a long-term investment horizon, supported by independent, fundamental research.

In order for the tacit knowledge built up throughout the time to be transformed in decisive insights, so that hypotheses and ideas generated in various nodes of IP Network evolve towards becoming grounded investment decisions, a differentiated "research" method subordinated to a strong investment philosophy is key.

Although various institutions allege orientation to value, long-term horizon, deep and independent study, etc., we know that it is a very difficult promise to deliver on a consistent manner. There are always several 'short-termish' temptations that can make you compromise your principles. Throughout the next 2008 quarterly reports, we are going to delve more deeply on important aspects of our "investment analysis" process.

In short, throughout this first 2008 report we sought to show that at IP, given the risk and uncertainty inherent to each and every investment decision, we try to overcome our incomplete information and structural cognitive limitations with permanent preparation, discipline, processes and method. Which at the end of the day should provide the basis for sound judgments.

The management of risk in IP is strongly intertwined with our daily and absolute commitment with the quality – current and future - of our analysis process and investment decision making. The fact that a significant amount of IP partner's wealth is invested in the funds is also very relevant. In a way, we fully agree with Bernstein: "Risk is a choice, not a fate".

NOTES ON TELEMAR INVESTMENT CASE

Tag along to minority shareholders is still a polemic issue in situations not clearly addressed in the new article 254-A of the Corporate Law. One such situation is the transfer of interests among shareholders that form the controlling block.

This matter was addressed in our management report of the second quarter of 2005. In that report, we analyzed a possible transfer of indirect interest in Brasil Telecom Participações S.A. ("BrTP") owned by the pension funds and Citibank to Telecom Italia International N.V ("TII"). At that time, TII held 38% of Solpart (which held 51% of BrTP), while the funds and Citibank held 61.98% of Solpart, indirectly, through Techold. Techold and TII were parties to the shareholders' agreement of Solpart, forming the controlling block of BrTP.

The prospective transaction was a direct or indirect acquisition by TII of the 61.98% of Solpart held by Techold (pension funds and Citibank). If the transaction were accomplished, TII, which used to hold 38% of Solpart, would then hold almost the entirety of its shares. That is to say, those who did not use to prevail in the shareholders' meetings would become virtually the sole voice at the meeting.

At that time, we understood that if the sale of shares were accomplished, there would be a disposal of the control of BrTP. Shareholders who held a majority position in the controlling block would transfer their shares to a shareholder with minority interest in such block. The requirements for a tender offer to the minority shareholders seemed to be present.

The expected transaction was not implemented. However, since then there have been many discussions on whether, in similar situations, there would be a transfer of control and the need of a public offer to the minority shareholders.

Since 2005, there have been many developments in the relationship among the partners of BrTP. Today, it is discussed the consolidation of the two telecommunication operators under Brazilian control, with the acquisition of BrTP by Telemar.

The press has stated that the next step for the acquisition of BrTP by Telemar would be a transaction whereby the financial shareholders would dispose of their interests to groups interested in the operation of Telemar (La Fonte and Andrade Gutierrez). It is relevant, in this case, to analyze the need of tag along to the minority shareholders of Telemar.

The stock ownership of the company that controls Telemar (TNLP3 and TNLP4) – Telemar Participações S.A. ("TelemarPart") may be represented by the following table:

Shareholder	Interest
La Fonte Tel. (Grupo Jereissati)	10,28%
Asseca (GP Investimentos and Macal)	10,28%
AG Telecom (Andrade Gutierrez)	10,28%
Fundação Atlântico (Supplementary Social Security Entity of employees of Oi)	4,00%
BNDESPar (Subsidiary of BNDES)	25,00%
Fiago (FUNCEF, PREVI and PETROS)	19,90%
Lexpart (Citibank and Opportunity)	10,28%
Alutrens (Banco do Brasil and Sul América)	10,00%

The company's controlling block is formed by La Fonte, Asseca, AG Telecom, Fundação Atlântico and BNDESPAR. Fiago, Lexpart and Alutrens, currently do not exercise their voting rights and do not hold an interest in the control of the company, as a result of their control relations with other telecommunication operators in Brazil.

Today the controlling block can be considered a pulverized controlling block, with low cohesion. The transaction will, in practice, transfer the absolute control of the company's operations to La Fonte /Andrade Gutierrez.

As a result, the shareholders who currently do not prevail in the company's shareholders' meetings would undoubtedly start to prevail at the meetings.

The question that arises is whether there would be an obligation to hold a tender offer to the minority shareholders (tag along) as a result of such transaction.

Article 254-A of Corporate Law provides that the triggers the obligation of carrying out a tender offer to the minority shareholders. The definition of control in Article 116 includes the ownership of partner's rights that ensure, permanently, the majority of the votes at the shareholders' meetings and the power to elect the majority of the administrators.

In this case, would we face a disposal of control? We can say that the interest of the disposing shareholders (Asseca, Lexpart and Alutrens) added to the current interest of the acquiring shareholders, would ensure to the acquirers the preponderance at the meetings of TelemarPart.

With respect to the arguments above, the Securities Commission ("CVM") and, ultimately, the Brazilian Courts, would be the competent parties to decide a possible discussion on the theme. We don't have notice that the matter has been faced by our courts. The CVM was urged to decide in a few cases, although in none of them a situation identical to the one discussed hereunder has been analyzed.

The understanding of that situation should include a discussion on the reasons of the tag along rights.

What is the law's intention when ensuring to the minority shareholders the right to participate in the sale of control? Isn't the control being transferred in this case? Aren't the new controlling shareholders different from the old ones? Aren't the disposing parties receiving a premium for their shares? Isn't the tag along purpose to provide the minority shareholders to participate in the sale of the company's assets? Doesn't it aim at granting the minority shareholders a compensation for the break of corporate stability?

Denying the tag along in this case would also mean to deny the minority shareholders an interest in the company's strategic value, which would be object of negotiation between the parties involved. This right seems to be one of the healthiest contributions to the development of the Brazilian capital markets.

Important scholars such as Nelson Eizirik have already spoken about this theme. In his newly released book, he arguments: "*However, it should be emphasized that "third parties" should be considered not only those who did not hold any relation with the former controlling shareholders, but also those who, although participate in the controlling block, in the event of shared control, held a minority position. That is to say, disposal of control is also characterized, for the purposes of article 254-A of the Corporate Law, when someone who held a minority stock interest in the controlling block acquires shares that provide them with a predominant position in such block, then starting to hold the domain of the business activity* " (Eizirik, Nelson et alli., Mercado de Capitais – Regime Jurídico – Rio de Janeiro, Renovar – 2008. p. 577)

The very technical area of CVM has already defended the tag along in similar situations, such as the CST Case, whereby the minority shareholders in the controlling block acquired an interest that ensured them preponderance at the shareholders meetings (CVM proceeding no. RJ-2004-4075). The following extract should be transcribed : "*in the case hereunder, since the intended acquisition will provide Arcelor/Usinor with the holding of the majority of the votes at the shareholders' meeting, it seems that the purpose of the transaction is effectively the Company's control...*"

The same technical area, when comparing the CST and Copesul cases (MEMO/SRE/GER-1/No. 147/2007), concludes: "*The statement of Braskem that we would be facing a mere reinforcement of control would seem clear to us, if it was already a majority shareholder in the original controlling block. Likewise, the disposal of control in the CST case seemed to be clear given the minority position of Arcelor in the controlling block...*"

As defended by certain experts, the applicability of the tag along should be analyzed on a case-by-case basis. Regardless of the structure adopted for the transaction, we should review carefully its direct results: the transfer of the control and the consequent applicability of the tag-along rights to the minority shareholders of Telemar.

We will approach this subject again, as soon as the transaction's details are released.

The funds managed by IP invest in the common shares of Telemar since the change in the Corporate Law that brought back the tag-along to common shares in Brazil. Telemar is an operationally well managed company, with a strong and relatively stable cash management capacity. Its common shares have a high strategic value, since the company has an unstable control structure, because its controlling block is formed by various non-strategic financial investors that in certain time will sell their interests. The grounds of Telemar ON (TNLP3) seem strongly sub-evaluated by the market and the current quotations provide us with the assurance that even if a liquidity event (disposal of control) takes some years to happen, the return on the investment shall be very attractive to the Funds.

Casa Show

Introduction

On February 29th the second private equity transaction of VBF was made. VBF Class A and Class C investors received shares of VBF Class S, the "side-pocket" structure where this new investment was allocated. As announced previously, VBF and other IP funds acquired 60% of Casa Show S.A. (Casa Show).

Casa Show is one of the main companies in the building material retail segment, and is the market leader in Rio de Janeiro, the second largest Brazilian market. The company operates 8 stores, all in the Home Center format, located mainly in the Rio de Janeiro metropolitan area, making available to its clients 55,000 items, which are distributed among 8 product families: Ceramic Tiles, Painting, Faucets & Fixtures, Building Products, Electrical & Lighting, Houseware, Garden, Home Décor.

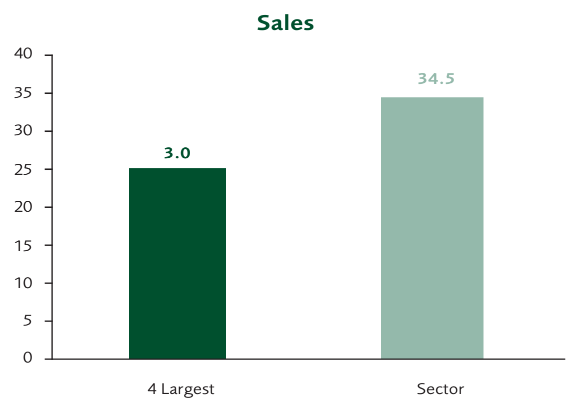
Casa Show was founded by the Sendas Family, a traditional family of Brazilian retailers, who held 100% of the company's stock and will continue to hold 40% of the company. The Sendas Family will be a valuable partner, and will not only contribute with the tradition, strength and credibility of their name, but also with their great experience in the retail sector: the Sendas Group was the founder of the Sendas Supermarkets (a company that was partly sold to Pão de Açúcar in 2004).

In 2007, Casa Show sold about R$180 million (gross sales), and its 8 stores had a total sales area of approximately 23,000 sq.m.. The company also has a distribution center located at a logistically strategic point in Rio de Janeiro, with a storage capacity of 14,000 sq.m. and with the possibility of physical expansion.

The Sector

The building industry is an important sector of the Brazilian economy, and the building material segment is an important one within this industry. It is a greatly fragmented sector, which is based to a large extent on micro and small companies, usually family companies focused on just a few types of products. The Home Center concept is not yet widely disseminated and used, and there are only a few players with a broader operation.

We believe that there is a big opportunity for expansion and consolidation in this sector. The competition of "informal" companies – that is, those using aggressive tactics in order to pay less tax – should be faced by using a strong financing and client credit program, and at the same time offering services related to the business and that add value to the consumer.



Source: Data e Varejo. 2005 Data.

Some facts and figures on the sector in Brazil:

- The building industry in Brazil represents more than 15% of the GDP
- The building material sector is responsible for approximately 31% of this industry
- The building material retail segment corresponds to 11% of this sector
- The Home Center concept is still very little developed:
  - 80% of the retail chains have sales areas under 1000 sq.m.
  - 90% of the retail chains have only 1 or 2 stores
  - 66% of the retail chains sell only one type of product

Investment Rationale

Casa Show is a company that has an interesting combination of a strong brand-name and very good locations, operating in a sector that should benefit greatly from a series of macroeconomic events that we have been observing: (i) interest rates at the lowest historical levels; (ii) strong growth in the real-estate sector; and (iii) reduction in unemployment levels. The partnership with the Sendas Family is also very positive, because it will help a great deal in the expansion of the company's activities, and the company will benefit from the Sendas Group's broad experience in retail.

During the period from 2002 to 2006, Casa Show suffered from a series of events that had a negative impact on its performance, causing its sales to remain practically stagnant and its profitability to drop:

- Two nationally prominent newcomers started their operations in Rio de Janeiro
- "Informal" competitors intensified and expanded their activities
- Negotiations involving the establishment of a partnership in the group's core business (Sendas Supermarkets) turned their attention away from the building material business
- The whole sales team was completely renewed in 2006

Today we see that all these factors no long exist:

- There is no other important large player with prospects of entering the Rio de Janeiro market
- "Informality" still exists in the sector, but as it is a phenomenon which is increasingly common in the retail segment as a whole, the cost of being "informal" is not as favorable as before
- The sales force is better trained today, going through the learning curve that is natural in this sector
- The company is already benefiting from the highly favorable macroeconomic scenario:
    - In 2007, sales grew by approximately 15% over 2006, and in the first quarter of 2008 we observed a very similar behavior

We believe that this is an excellent investment opportunity, considering IP's experience in retail, together with a partner that shares the same moral and ethical values, and that it is a company with a strong brand-name and very good sales points, operating in a segment that is greatly benefiting from the macroeconomic scenario.

The Deal

Together, the funds managed by IP hold 60% of Casa Show's capital. The Sendas Group remains as the holder of the remaining 40% of the company. Casa Show's Board of Directors is composed of 5 members: 3 appointed by IP and 2 by the Sendas Family.

This investment is the first one that combines two characteristics that are unique for IP: (i) we will have the majority of the company's voting shares; and (ii) it is a case of restructuring. Because of this, we are dedicating to this case even more time and effort than usual. We believe that a new group of highly competent executives, together with a series of new investments in infrastructure, automation and IT, will be sufficient to make a turnaround, put the company back on track, and prepare the way for expansion.

We have already changed the whole group of top executives of the company. As the new CEO of Casa Show, we have brought in a professional with great experience in retail: Arthur Negri. Negri worked for 14 years at Shell, where he was responsible for the creation, implementation and operation of the Select convenience stores project. For one year, he was responsible for Brasil Telecom's Corporate Marketing. At Blockbuster, he worked for one year as Vice-President and then became the CEO for a period of 4 years. Later, he returned to the company in order to carry out the sale to Lojas Americanas. He worked for 18 months as Fininvest's Commercial Director before joining Investidor Profissional. Today, he takes part in Hering's and Saraiva's Boards of Directors as a member appointed by IP.

The new Financial Director has almost 20 years of experience in Finance and was employed by both Shell and Comgás. He has broad experience in processes, planning, mergers and acquisitions, and corporate governance. Completing the team, the new Commercial Director comes from Ambev and brings almost 10 years of experience in sales and marketing, and the new Operations Director will also contribute with his very broad knowledge of the area.

This new group of executives will be responsible for implementing the strategy developed for Casa Show, which is based on three main pillars:

- Improving the efficiency of the current operation by investing in marketing, IT, automation, process standardization, etc.
- Expanding the present business by opening new stores
- Introducing new services (financial products, related services, etc.) and expanding into other markets (by means of organic expansion and/or mergers and acquisitions)

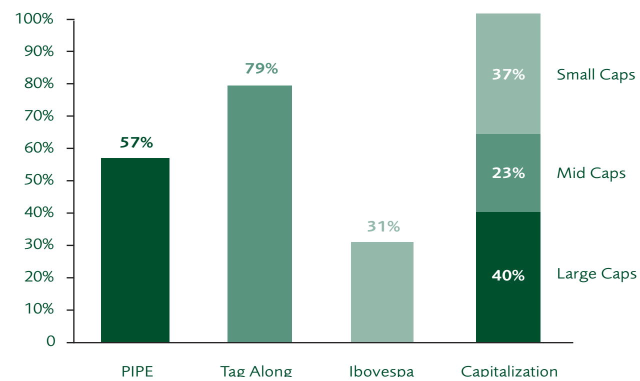
The initial focus will be to restructure the company and enable it, once again, to book positive results. It is still too early to talk about a possible listing of the company, but we believe that the growth in the sector, together with the company's increased returns, will rapidly position it so that it will be feasible for the company to go public.

Performance – VBF Class A Portfolio

	VBF Class A	Performance (USD)[3]			
	% Invested Equities	VBF Class A	VBF Class S (Mills)	VBF Class S (Casa Show)	Classes A+S+S[2]
March 08	98.25%	-11.97%	-3.98%	-3.53%	-11.66%
February 08	98.58%	6.82%	4.31%	-	6.75%
January 08	97.15%	-8.91%	0.35%	-	-8.68%
December 07	98.90%	2.55%	0.49%	-	2.50%
November 07	98.36%	-5.38%	-1.80%	-	-5.29%
October 07	97.69%	7.68%	4.53%	-	7.61%
September 07	95.13%	5.61%	6.47%	-	5.63%
August 07	95.71%	-4.99%	-4.48%	-	-4.98%
July 07	82.87%	3.06%	-0.84%	-	3.00%
June 07	68.36%	3.12%	-	-	3.12%
May 07	64.13%	9.04%	-	-	9.04%
April 07	54.76%	5.75%	-	-	5.75%
2008 (YTD)	-	-14.34%	0.50%	-3.53%	-13.88%
2007 [1]	-	30.59%	4.03%	-	30.51%
Since inception [1]	-	11.86%	4.56%	-3.53%	12.40%

(1) Inception VBF Class A 2007, Mar 06
(2) Inception VBF Class S 2007, July 06
(3) Net of all fees

VBF Class A – Equity holding characteristics*



* PIPE: Private Investment in Public Equity/Tag Along: % with tag along rights/Ibovespa: % in the index/ Capitalization: small (smaller than US$1b), Mid (between US$1b and US$3b), Large (larger than US$3b)

Structure

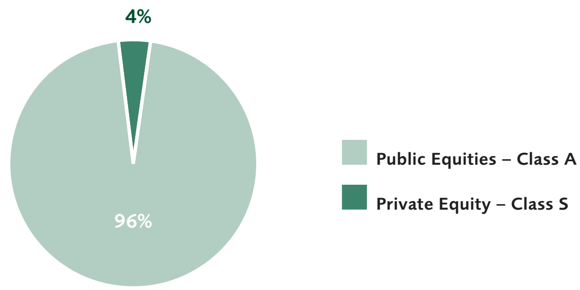
IP Brazil Fund SPC, VBF Segregated Portfolio is an exempted company registered as a segregated portfolio company, incorporated under the provisions of the Companies Law of August 3, 2006 of the Cayman Islands.

Investment Manager: Investidor Profissional Gestão de Recursos Ltda.
Net Asset Value Calculator: Mellon Serviços Financeiros DTVM S.A.
Brazilian Custodian: Banco Bradesco S.A
Bank: UBS AG, Stamford Branch, CT (USA)
Registrar and Transfer Agent: UBS Fund Services (Cayman) Ltd.
Auditor: KPMG
Inception Date of Classs A: March 06, 2007

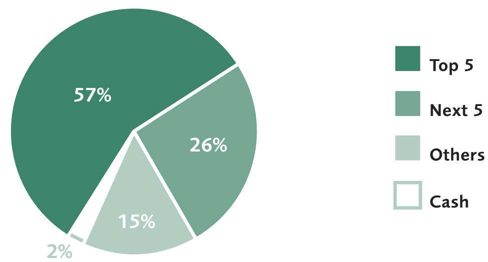
Terms and Conditions

Subscription: On scheduled rounds. Closing day of the first round was March, 2007.
Next Round: May, 2008
Minimum Initial Investment: USD 1,000,000.00
Redemption: Lock-up Period of 18 months. Redemption dates on the last Business Day of each calendar quarter, with a three months prior notice
Maximum Redemption: Limit of 10% of the issued shares of the class in each quarter of the first five years after the lock-up period and 15% thereafter.

Break-down Public Equities x Private Equity



VBF Class A – Portfolio Concentration



Portfolio Multiples*	2008E	2009E
Price/Earnings	9.72	11.37
Price/Book	2.25	2.05
Enterprise Value / EBITDA	7.27	6.27
Return on Equity	18%	19%
Dividend Yield	4.0%	4.6%

* Estimate by IP

Terms and Conditions (cont.)

Management Fees: (i) 1.0% per annum of the Net Asset Value of the VBF Segregated Portfolio allocated to fixed income investments, including but not limited to cash, and (ii) 2.0% per annum of the Net Asset Value of the VBF Segregated Portfolio allocated to the remaining Investments.
Any Management Fee and Incentive Fee payable in respect of any Class S Shares representing Designated Investments will not be paid until the realization or deemed realization of the Designated Investments.
Incentive Fees:

- 20% computed on returns in excess of IPCA+9%, with catch-up mechanism:
  – between IPCA+9% and IPCA+10% p.a.: 100%
  – above IPCA+10% p.a.: 20%
  note: IPCA is the Brazilian Broad Consumer Price Index
- High-water-mark mechanism avoiding double charging for same performance
- Accrued daily and paid semi-annually

Additional Information

For additional information regarding of VBF, please contact us by phone at (55 21) 2104-0506 or by e-mail at contactus@investidorprofissional.com

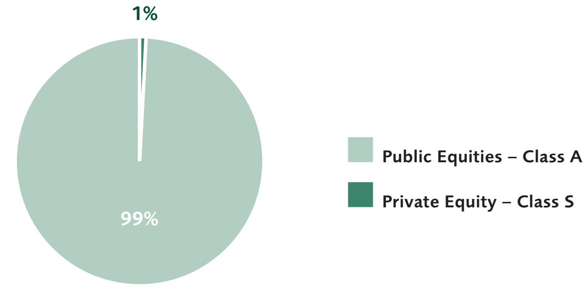
Performance – VBF Class C Portfolio

	VBF Class C	Performance (US$)		
	% Invested Equities	VBF Class C	VBF Class S (Casa Show)	Classes C + S (2)
March 08	83.90%	-8.67%	-3.53%	-8.60%
February 08	83.14%	8.71%	-	8.71%
January 08	77.38%	-6.89%	-	-6.89%
December 07	76.01%	-1.54%	-	-1.54%
November 07	64.84%	-1.64%	-	-1.64%
2008 (YTD)	-	-7.55%	-3.53%	-7.49%
2007 (1)	-	-3.15%	-	-3.15%
Since inception (1)	-	-10.47%	-3.53%	-10.40%

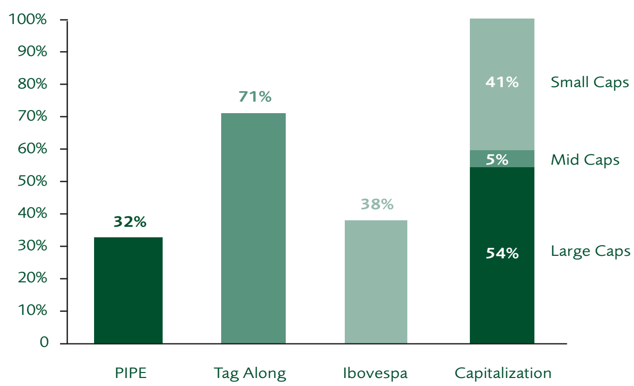
(1) Inception VBF Class C 2007, Nov 09

(2) Inception VBF Class S 2008, Mar

Break-down Public Equities x Private Equity



VBF Class C – Equity holding characteristics*



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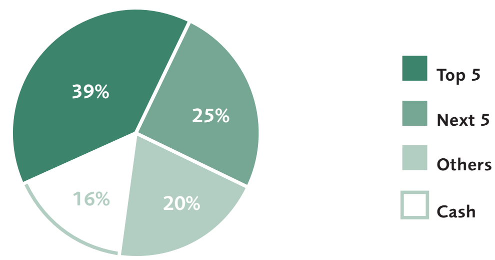
VBF Class C – Portfolio Concentration



Portfolio Multiples*	2008E	2009E
Price/Earnings	11.82	9.47
Price/Book	2.02	1.79
Enterprise Value / EBITDA	5.32	4.70
Return on Equity	21%	21%
Dividend Yield	4.5%	5.2%

* Estimate by IP

Structure

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Net Asset Value Calculator: Mellon Serviços Financeiros DTVM S.A.
Brazilian Custodian: Banco Bradesco S.A
Bank: UBS AG, Stamford Branch, CT (USA)
Registrar and Transfer Agent: UBS Fund Services (Cayman) Ltd.
Auditor: KPMG
Inception Date of Classs C: November 09, 2007

Terms and Conditions

Subscription: On scheduled rounds. Closing day of the first round was March, 2007.
Next Round: May, 2008
Minimum Initial Investment: USD 1,000,000.00
Redemption: Lock-up Period of 18 months. Redemption dates on the last Business Day of each calendar quarter, with a three months prior notice
Maximum Redemption: Limit of 10% of the issued shares of the class in each quarter of the first five years after the lock-up period and 15% thereafter.

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Additional Information

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Miscellaneous

"Only in fairy tales are emperors told they're naked" – Charlie Munger

"Palatial casinos are built in the desert because people find risk to be fun and exciting. I am not much of a gambler, so whenever I visit Las Vegas, I spend most of my time watching friends try their luck. One intriguing thing I have noticed is that when things are going well and money has been won, it is nearly impossible for many people to walk away from table. Instead, they take on more risk by betting larger amounts, even though the odds are clearly stacked in favor of the house. Taking on risk only makes sense when it is sufficiently outweighed by the potential reward, which is why we only buy stocks when there is a margin of safety." – Charlie Munger

No matter how financially sophisticated you are, you can't possibly learn "from reading the disclosure documents of a derivatives-intensive company what risks lurk in its positions. Indeed, the more you know about derivatives, the less you will feel you can learn from the disclosures normally proffered you. In Darwin's words, "Ignorance more frequently begets confidence than does knowledge. – Warren Buffett

"There are known knowns; there are things we know we know. We also know there are known unknowns; that is to say we know there are some things we do not know. But there are also unknown unknowns -- the ones we don't know we don't know..." – Donald Rumsfeld

"It is better to be roughly right than precisely wrong" – John Maynard Keynes

"It is better to be roughly right rather than precisely irrelevant" – Edward Tufte

"Risk comes from not knowing what you're doing" – Warren Buffett

"There is no sense in being precise, when you don't even know what you're talking about" – John von Neumann

"I am always learning what I cannot do in order to learn how to do it" – Pablo Picasso

"It is impossible to begin to learn that which one thinks one already knows" – Epictetus

"To convert a model into a quantitative formula is to destroy its usefulness as an instrument of thought." – John Maynard Keynes

"Risk is a choice rather than a fate" – Peter Bernstein

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