Fund Report

VBF Class A and VBF Class C

Second Quarter / 2008

20 YEARS

INVESTIDOR PROFISSIONAL

SINCE 1988

Index

Summary

In this second 2008 Report for VBF Class A and Class C investors, we present a brief reflection on the process of "investment analysis", the core activity of a company such as ours, specialized in the value-oriented management of equity funds.

Among the main contributions to the funds' performance in the first semester of 2008 we can highlight Globex (GLOB3), Banco Nossa Caixa (BNCA3) and Fosfértil (FFTL4).

VBF Classes A and C hold similar positions, the main difference being Globex. At the end of 2007, Globex was a top holding in Class A (representing 24% of the portfolio) and was not present in Class C. On June 30th, Globex represents 17.7% of the portfolio in Class A and 2.3% in Class C.

Unlike 2007, a year in which the company's shares had an excellent performance, up to June 2008 Globex shares fell more than 40%[1]. In the same period, the shares of Nossa Caixa and Fosfértil presented a strong positive performance, with gains of 99%[1] and 74%[1] respectively.

After a brief discussion of the present scenario and market trends, as we are under restrictions in respect of trading and commenting on Globex, in this report we will focus on the companies Nossa Caixa and Fosfértil.

[1]In US$

At the beginning of the twenties, soon after he received the Nobel Prize for Physics, Max Planck was one of the most sought-after speakers in the whole of Germany.

In order to drive Planck around the country, so that he could disseminate "The genesis and the present state of the quantum theory", the Deutsche Physikalische Gesellschaft (German Physics Society) provided him not only with a car, but also a chauffeur: Ernst Dahler.

Dahler listened to the famous professor for weeks on end. From Hamburg to Bavaria, the journey was tiring: Planck gave addresses day after day, both at universities and at City Halls and associations. They visited dozens of cities in nine different states. Very often the physicist gave the same address two or more times on the same day. After listening to the same talk time and time again, Dahler ended up practically learning the whole of it, by heart.

When they arrived at Munich, one of the last and most important stops in the journey, Planck was tired, had flu, was hoarse and in a very bad mood. In order to give him a respite, the driver suggested, jokingly, that they should change places: he would give the presentation in the physicist's place.

Planck laughed, hesitated for a few seconds, but he finally thought it was an interesting idea. After briefly testing the driver, he ratified it: – Why not? We even look a little alike: bald, classic moustache, practically the same height… All you need is to wear my glasses and my gown and, what is fundamental is that you are careful to enter the hall a bit late, when everyone is seated.

Said and done. They changed places and Dahler did what was necessary. The address streamed out wonderfully. But right at the end, something unexpected happened: a professor emeritus of the old guard asked to speak, and after an introduction of over 5 minutes questioning some of the professor's premises, he asked, in a very articulate manner, a question to which Dahler did not have the slightest chance of knowing the answer.

After a few seconds reflecting amidst a stony silence, Dahler answered firmly: – Honestly… I am very surprised to hear such an elementary question about high-energy physics in Munich of all places … And he added: – Sir, your question is so basic that I will ask my chauffeur to answer it! Ernst, come here please.

"Planck" type and "chauffeur" type knowledge

This apocryphal story reached us through Charlie Munger, vice-Chairman of Berkshire Hathaway, who told a short version of this episode more than once in talks for MBA students at different universities.

The moral of the story, in Charlie Munger's view, is this: "In this world there are two types of knowledge. One is the Planck type of knowledge, that of people who really know. They have paid all the tolls and have the necessary aptitude. But there is also the "chauffeur" type of knowledge. The latter have learnt the way to do things, the form. They may have their hair plastered down, a persuasive voice, well-polished shoes, and cause a spectacular impression. But at the end of the day, all they have is "chauffeur" type knowledge.

On a certain occasion, one of the people in the audience questioned Munger: "and how can you know if you are facing knowledge of the Planck type?" To which Munger answered: "unfortunately, the only way is to have it yourself".

The genial Charlie Munger is no doubt one of the most interesting people in the investment world. Munger is the principal partner and associate of Warren Buffett at Berkshire Hathaway, vice-chairman of its Board of Directors, and one of the people who has most influenced the company's investment decisions in the course of several decades – besides displaying individually an exceptional performance as an investor.

Though relatively outshone by his illustrious partner in relation to the public in general, Munger is not exactly unknown to the community of investors, especially among those who subscribe to value investing. His talks as Chairman of Wesco, his participation at annual shareholder meetings of Berkshire and his sporadic appearances at university events are followed with great interest throughout the world. Erudite, but simple, frank and straight-to-the-point, Charlie has an unmistakable style.

He is known for his inveterate defense of "interdisciplinary synthesis", that is, the importance of understanding the ideas and basic models of various subjects and applying them to the practical issues of life – among them, investment decisions. Munger is the embodiment of what he himself defines as worldly wisdom – a pragmatic wisdom, with no boundaries and no nonsense.

In this short essay, we have borrowed one of his favorite stories in order to reflect on the "investment analysis" process.

A good investment analysis is not precisely an "analysis". Nor "investment-related"

In 1957, Jim Fullerton, of Capital Group, one of the most traditional value-oriented equity investment funds in the USA, started seeking new talents for their team of analysts. He contacted the placement officer of a well-respected institution, who indicated six candidates, all having excellent marks and, counting their first degree and MBA courses, 6 years' education in business at the prominent institution.

As he went through the CVs, one by one, Fullerton became increasingly disheartened. Finally, he was categorical: "I can't use any of these fellows. They may sound good for some recruiters, but not for me. They'll know exactly how to do every routine thing correctly, but that's not at all what we're looking for. We need men that will be great investors. They simply must be imaginative, creative and independent thinkers. Do you have any men who might be the sort we need?"

Half a century later, the widespread impression that persists is that even among value-oriented funds, to assess investments consists essentially of systematically applying a pre-defined set of routines and mechanisms, with special emphasis on building complex financial models which, mired in naïve scientism, confuse and disorient more than they reveal.

This does not mean that the reputation is undeserved. After all, the proliferation of funds seeking to emulate such winning processes as those of Buffett, Fisher, Ruane, Whitman, and so many others, has not only resulted in a new generation of new but venerable investment firms, but has also given rise to a series of less zealous versions, especially regarding one of the pillars of value investing: the quality of the investment evaluation process.

Many seem to believe that valuing a company diligently consists of setting young men who have recently graduated or concluded their MBAs to read prospectuses, half a dozen annual reports and the same amount of conference calls, to talk two or three times with the company's management, ask about their "sustainable competitive advantages", apply Porter's 5 strengths model, and the grand finale: process a discounted cash-flow model, making a cut of 10 to 15% in the management's projections in order to avoid, of course, potential "execution errors". To lend an even more "professional" aspect to the process, one adds to this basic "conservative" scenario another more optimistic one and a pessimistic one, and – *voilá*, the cake is ready.

In our experience, evaluating investment opportunities is not limited to this type of mechanical proficiency. It does not assume training by means of analysis manuals and "kits" that, once learnt by heart, are applied on an industrial scale by anyone, as the occasion dictates. This "pasteurization" leads, in the best of cases, to consensus, to the average.

After all, "analysis" does indeed involve discipline, sweat and hard work, but it is more *finesse* and interdisciplinary integration than brute force. An activity, in Munger language, clearly of the Planck type, not the "chauffeur" type.

Evaluating investments is a much broader, richer and more interesting process than the idea evoked by the word "analysis".

"Passive" analysis

In the first place, any "investment analysis" process starts well before we have even selected an asset as the object of evaluation: it happens every day, every second, in a "passive" manner, without our intervention. After all, every new stimulus or item of information we receive daily only makes sense when it fits into a pre-established network of beliefs, values, myths, and mental models, which we have built slowly in the course of time. When we encounter the "new", our conceptual frameworks, truths and prejudices "arrive before us" and fit this marginal information into themselves.

This discovery brings important consequences: if we know *a priori* that we only succeed in giving meaning to the "new" when we fit it into the patchwork of values, frameworks and previous experiences that we gather throughout our lives, we have the obligation, the responsibility, to build and renew – pro-actively, day after day – this network of mental models and experiences, so that we are better prepared to know, at the proper time, how to give a practical meaning, rapidly and precisely, to the most varied business situations that may appear. Considering that, from the perceptive point of view, you only reap what you plant, the solution is to plant all the time.

In short, given that part of the "analysis" is carried out passively, we have the responsibility to turn the game around, playing an active and vigilant role in forming our perceptive and interpretative apparatus.

In this context, it is fundamental to be pro-active in seeking new and exclusive sources of information, in building and nourishing high-level relationships, travelling to see the evolution of the industry in other countries and to better understand the movements in the supply chains at global level, reading voraciously about many different subjects, and so on.

Analysis as a synthesis

The etymology of the word "analysis" leads us to the meaning "to separate a subject into pieces and understand the inter-relations between its parts" or, in a wider sense, "to examine with care".

However, paradoxically, the desired output in an investment "analysis" process is in fact, a synthesis. What is sought is an ingenious, clear and well-structured re-combination of a collection of information and judgments gathered from different sources, into a "whole" that enlightens with clarity the process of deciding whether to buy or sell an asset.

That means identifying, after research that is often exhaustive, two or three key points that clearly define the reasons for a distortion between the price and the value of the asset under analysis.

Just as in traditional, empirical research, the process of conceiving and formulating the key hypotheses to be verified requires perspicacity, imagination and creativity.

Analysis as a narrative, interpretative activity

To "analyze" is to manipulate concepts, to reason in an abstract manner. To produce meanings, build stories, raise hypotheses. A good investment case is, in general, only a simple story, with a plot. And a clear conflict as its focus point: the market's consensus view against the analyst's alternative view, that is, the distortion between the price and the perceived value of the asset.

Analysis as an activity of an adversarial and investigative nature

Investment analysis is, from beginning to end, an eminently investigative process. A good analyst starts from a hypothesis - or from a set of them – and pro-actively seeks both confirmatory and disconfirmatory evidence to assess the strength of his "thesis". With the same impetus. He is not satisfied with easy answers: he pursues the necessary information wherever it is. Provided it addresses a key point of the analysis, the more difficult it is to obtain, the more valuable and exclusive the information.

Analyzing an asset in a diligent manner sometimes involves interviewing shareholders, managers, clients, suppliers and employees of the company in question.

Obviously, each of the persons involved – especially the managers – is not exactly in line with us. It seems obvious that this should be considered in an "analysis", but it is not. Even experienced analysts let themselves be influenced by the contagious optimism of an articulate and well-prepared CEO, by the enthusiastic statement of a good CFO.

In our experience, it is a crucial part of an analysis process to profess skepticism when one is presented with any information, regardless of the origin. There is no neutral information.

But it is one thing to make contact with these agents in order to meet a schedule and tick off the items on the due diligence worksheet. It is quite another to see these interactions as opportunities to test hypotheses, confirm or disconfirm evidence, raise new questions. And to an experienced analyst, the key questions are those picked up on the spur of the moment.

More senior analysts not only make this kind of visit after preparing well, in advance, but also know that each interaction represents an opportunity to produce an important, decisive insight.

As Ken Fisher says regarding his legendary father, Phil, in the excellent foreword to the classic work "Common Stocks and Uncommon Profits":

"In looking at companies, he always prepared himself in advance before meeting the management (...). He always wanted to be prepared and he wanted the company to know he was well prepared so they would appreciate him".

"But his very best questions always popped out of his mind, unprepared, never having been written in advance, because they were the angle he picked up on the fly, as he heard the answer to a lesser question. Those creative questions were the art. It is what, in my mind, made his querying great."

"The art is to get more questions – and the right questions – flowing from the answers you receive to prior questions. I've seen people who rigidly run down a standard question list, regardless of the answers they get. What question best flows from the answer is key. And so on. When you can do that on a real-time basis, you are a composer, an artist, a creative and investigative investor".

Conclusion

The "investment analysis" process, as we see it and try to put it into effect at IP, is more complex, far-reaching and stimulating than may seem at first sight. Strictly speaking, it is not even just "analysis", nor just "investment-related". And it starts clearly with a choice: to adopt, *a priori*, an active, skeptical and vigilant posture in relation to information and knowledge throughout the process.

And the cost of this constant vigilance and continuous preparation, which is paid well before reaping the benefits, is quite high. But in respect of "investment analysis", this is the path we have chosen to follow.

MARKET SITUATION: PRESENT SCENARIO VS. TREND

Once again, we are going through one of those "end of the world" times. The older market players in Brazil remember the Nahas Case, the Collor Plan, the crises in Mexico, Asia, Russia, Brazil, Argentina etc. Just as on those occasions, we have no doubt that these are passing matters. However, we do see a difference that we consider significant: the stage and scope of the structural changes that the world is going through.

This is not the place to go over the details of all the significant facts that comprise and signal this change. We will just list a few facts in order to set our argument in context: the integration of Eastern Europe and the establishment of the euro (greatly questioned until four years ago); the entry of vast segments of populations of the emerging countries into the consumer goods production and market; a considerable improvement in the public finances of these countries (including Brazil); and the accelerated implementation of the famous "global village", with the resulting alignment of interests and the inevitable skirmishes in the fight for positions in the new order. Certainly a turbulent process, but one that grows clearer day-by-day and whose fundamental trend, from the economic perspective, is positive.

We should also say a "mea culpa" here. Due to excessive skepticism (and our focus on businesses where the characteristics of the business model and management quality are more decisive), we took little benefit from the commodities boom. The "consolation" – if any such attenuating factor is called for – is that the consolidation of these macro-changes leads to a favorable scenario for companies with competitive positions and attractive business models, which we like to think of as being "our turf".

As is the case with every macro-trend, jolts are not only inevitable but part of the process of purging and restoring discipline. In this respect, the unpredictable nature of the adjustments is fundamental and inevitable. The great challenge for all of us investors who seek real success and not just short-term comfort, is to keep our focus on the proverbial forest without getting lost in the trees, or as the scientists would say, not to mistake noise for a signal. After all, who would have said or believed in 2002, with the US$ reaching R$ 4.00, that today it would be at R$ 1.60, in a second President Lula administration? Or that the prices of shares in the stock exchanges would suffer so much turbulence immediately after Brazil achieved the much awaited "Investment Grade", and the discovery of an unimaginable quantity of petroleum, which places Brazil among the giants of the sector?

At such times as these, we always recall the teachings of experienced and successful masters. As Warren Buffett and his partner and alter ego Charlie Munger never tire of repeating, in the short term the markets are like a vote-counting machine, fluctuating with the preferences of the moment, but in the long term they are like scales: things are worth their weight. And John Templeton: Buy to the sound of the cannon and sell to the sound of violins.

We believe that the structural changes which the world in general, and Brazil in particular, are going through are very positive for an investment in quality companies. The present is always complex, but the fundamental trend seems to us clear and positive.

Banco Nossa Caixa

Name:	Banco Nossa Caixa S.A.
Sector/Industry:	Banks
Ticker:	BNCA3
Share Class:	ON
Tag along:	100% ON
Price*:	R$ 41.40
Market Cap*:	US$ 2.8 Bn

* As of June 30, 2008

Banco Nossa Caixa made its IPO at the end of 2005. With over 550 branches, a client-base of more than 5.5 million accounts, and its main focus in the State of São Paulo, the bank owns an important franchise. With total assets exceeding R$ 47 billion at the end of 2007, it was the 12th largest Brazilian bank by this measure.

The majority of shareholders expected that, at the beginning of 2007, the accounts of the civil servants of the State of São Paulo would naturally migrate from Banco Santander to Nossa Caixa. There would be no additional costs for Nossa Caixa to obtain these accounts.

What happened, however, was something different. In March 2007, Banco Nossa Caixa, whose controlling shareholder is the government of the State of São Paulo, signed an agreement with the State Treasury with the objective of becoming the exclusive bank for the payment of the state's civil servants for a period of 5 years. An amount of R$ 2.1 billion, or approximately R$ 1,900 per account, was paid for the acquisition of this right.

With regard to the price paid for the accounts, it can be said that it was in line with the prices paid by several private banks in similar auctions. It is necessary to point out, however, that Nossa Caixa has a smaller range of products and services, and therefore has a lower capacity to extract additional revenue from these accounts when compared to other banks. This being so, the price that Nossa Caixa can pay for these accounts is lower than the price that other, bigger banks manage to pay. The price paid by Nossa Caixa, however, did not imply significant value destruction.

Later, Nossa Caixa informed the market that it intended to transfer to the account of the State of São Paulo Treasury the judicial and administrative deposits to which the State was a party. These deposits are an excellent source of funding for the bank. The impact of this measure, however, was limited. The deposits to be transferred represent approximately 8% of all the judicial and administrative deposits administered by the bank.

In spite of having being the first Brazilian bank to have its shares traded with the seal of governance of the "New Market", the signals that the controlling shareholder sent to the minority shareholders were clear – and very bad.

As a result of these events, and of the significant and immediate payment made by the bank to the State of São Paulo Treasury, Nossa Caixa's shares depreciated by more than 50%. We thought the market's reaction was exaggerated, given the asset's intrinsic value.

Just as an illustration, the market capitalization of Nossa Caixa, at R$ 27 per share, was R$ 2.9 billion, or R$ 525 per account. This value compares to the R$ 1,800 – 2,000 per account that the leading private banks pay just to have the right to manage civil servants' accounts. At the current market price, Banco do Brasil's shares are trading on a basis of R$ 2,460 per account.

We started to buy shares as the prices got close to the bank's book value. At these prices, the bank's implicit future ROE was approximately 10%. The bank had managed to obtain returns above 15% in previous years, while other banks achieved returns between 25% and 30%.

The government of São Paulo was still indicating that it might sell some state-owned companies to raise funds for the large investments it intended to make. The asset Nossa Caixa was among the main assets owned by the state.

In addition, Banco do Brasil was negotiating the purchase and absorption of some state banks, such as those of Santa Catarina and Piauí. Banco do Brasil has a very strong presence in the Northeast of the country, where the other private banks have less interest. Its presence, however, is not as strong in the State of São Paulo, even though this state is responsible for more than 1/3 of the Brazilian GDP. Banco Nossa Caixa was clearly complementary to Banco do Brasil.

We saw in Nossa Caixa an attractive asset, with prospects of being sold, and that could be worth much more within the structure of a larger bank.

Recently, Banco do Brasil and Nossa Caixa notified the market of the beginning of studies for the sale and later absorption of Nossa Caixa by Banco do Brasil. With this purchase, Banco do Brasil will jump to the leading position in number of branches in the State of São Paulo.

The major banks (Itaú, Bradesco, Unibanco and Santander) then publicly asked for more transparency in the sale process. They asked for an auction to be held for the sale of the asset, so that all those interested could take part. Regardless of whether there is an auction, the interest demonstrated by these banks makes its strategic value clear and applies additional pressure for the correct valuation of the asset.

There seem to be no signs at all that Banco Nossa Caixa might be auctioned. The sale of the asset by auction could mean greater job losses and negative political effects if the buyer were any other than Banco do Brasil.

The government of the State of São Paulo made a point of stressing that the market prices that were prevailing previously would not serve as the basis for the sale of the bank, as they were excessively depressed. Today, the shares are trading only 35% above the earlier price level.

At present, Nossa Caixa has a market capitalization of R$ 4 billion, and is trading at a multiple of 1.35x its book value. Even after the recent strong appreciation of Nossa Caixa, we believe that the risk/return for waiting for the final appraisal of the business's value is attractive. In a pessimistic scenario, we see a limited downside, and in the base-case or optimistic scenarios the prospects for gain are very good.

Fosfértil

Name: Fertilizantes Fosfatados S.A. – Fosfértil
Sector/Industry: Fetilizers
Ticker: FFTL4
Share Class: PN
Price*: R$ 121.80
Market Cap*: US$8.1 Bn

* As of June 30, 2008

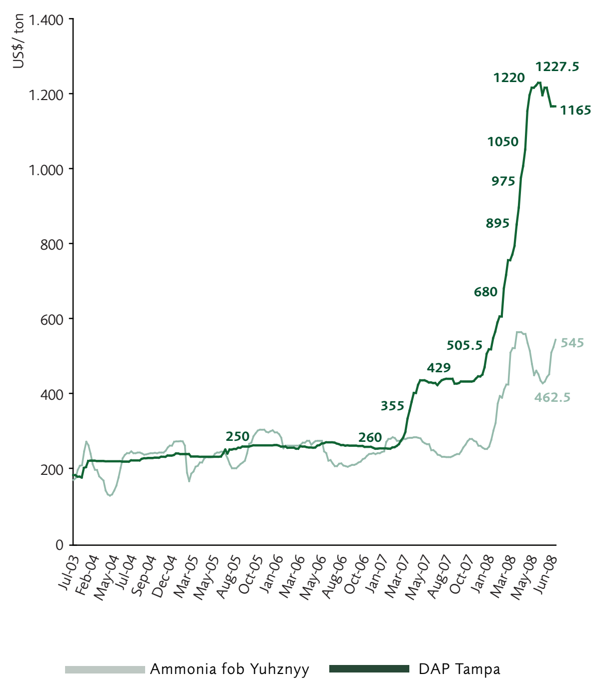
In the September 2007 Fund Report, we described the rationale for our investment in Fosfértil. In short, our argument was that the company's future results would benefit a great deal from two factors:

(i) The healthy recovery of the Brazilian agricultural sector, after the weak years of 2005 and 2006. In fact, we continue to see high agricultural prices that favor the farmers' incomes and therefore enable them to invest heavily in purchasing fertilizers. The demand for fertilizers in Brazil grew 17.3% in 2007; and in 2008, up to the month of April, there has been a cumulative increase of 20% over the volume of demand in the same period of last year. In the matter of global demand, the planets also seemed – and continue to seem – perfectly aligned: the economic growth of the Asian countries increases food consumption, and the demand related to the addition of ethanol in fuels continues to drive agricultural production, especially of corn in the United States. These facts, together with the limited possibilities for expanding arable lands, have been strongly leveraging the global demand for fertilizers to be used in increasing agricultural output.

(ii) On the supply side, we were closely following a structural change in world production. At the end of 2004, a consolidation movement among phosphate fertilizer producers (formation of Mosaic, with 15% of the global market) promised greater discipline in the supply expansion rate. This prospect effectively materialized with the massive closing of loss-making plants in the United States during 2005 and 2006.

Obviously, the above-mentioned expansion in demand, together with the restricted supply of the product, caused a sharp increase in phosphate fertilizer prices. As early as October 2007, the price of DAP, the main product of this class, had risen 120% in relation to its historical average of 1996-06. Although we were certain that the rise in prices would continue in the short to medium term, we were surprised by the speed at which the price of DAP rose in the last 9 months. The price rose from US$ 450/ton in October to the present US$ 1,200/ton (see chart below).

Fertilizer prices (DAP and Ammonia) US$-ton 2003-08



For reasons of climate, planting in the northern hemisphere is concentrated in the first half of the year and in the southern hemisphere, in the second half. Not only was the continued American demand for fertilizers (related to the matter of corn-ethanol) stronger than expected, but also there was a catalyzing event in the middle of the semester: China, trying to contain an even sharper increase in food prices due to the skyrocketing fertilizer prices, decided to impose a surcharge of 100% to 130% on exports of its fertilizer, with the aim of retaining the national output within the country. With such a high surcharge, the supply of fertilizers originating from China practically came to a halt, withdrawing approximately 20% of the volume of granulated fertilizers traded globally. It is no surprise that the price of DAP jumped almost 20% at the end of March, in relation to the beginning of the month – the Chinese government's announcement came at the end of that same month.

In addition to this sharp price increase, another positive factor for the company was the announcement of the approval of an expansion project that should double Fosfértil's capacity. We had been awaiting this investment decision for a long time, because we believe that this expansion will give a high return on the capital employed. The phosphate rock mine to be exploited is located in Minas Gerais, which, as we explained in the September report, makes it close to the agricultural frontier that is expanding in the country: the central-western region. Fosfértil benefits from this proximity as it incorporates into the price of its products the "import costs" – i.e., the value of the imported product plus the freight – the latter being increasingly expensive as a consequence of the scarcity of ocean-going ships and logistical limitations in Brazil.

As one may observe, since September 2007 the news for Fosfértil has only improved – and even to an extent far above what we were expecting. As a consequence, our position in Fosfértil appreciated during the semester. We remain very confident in the company's prospects for the coming years. New investments take many years to mature. As the prices were very low, and only reached levels that strongly stimulate new investments in expansion in September 2007, the global supply will take some years to adjust to demand, which will support high prices for a long time to come.

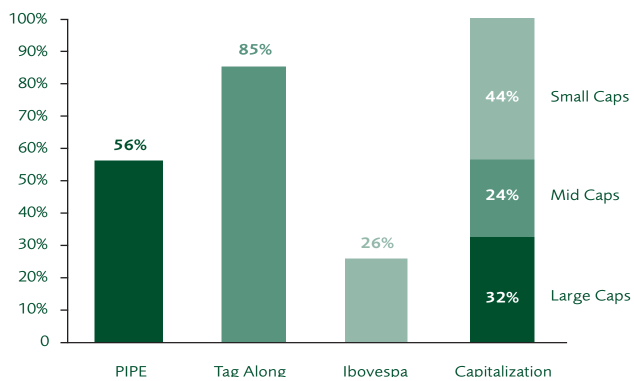
We would stress that seasonally the third quarter is usually the strongest for Fosfértil, because of the beginning of planting by Brazilian farmers. Up to now, we only have the results of the first quarter of 2008 published, and they already show an impressive rise of 155% in the net profit, in relation to 1Q07. According to our projections, despite the positive perspectives, FFTL trades at 8.5 x P/E 09.

Performance – VBF Class A Portfolio

VBF Class A		Performance (US$)[3]			
	% Invested Equities	VBF Class A	VBF Class S (Mills)	VBF Class S (Casa Show)	Classes A+S+S[2]
June 08	98.73%	-6.30%	3.17%	1.92%	-5.47%
May 08	98.93%	12.61%	3.24%	0.73%	12.18%
April 08	95.78%	5.63%	3.50%	2.46%	5.53%
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%
2008 (YTD)	-	-4.53%	10.79%	1.48%	-3.90%
2007 [1]	-	30.59%	4.03%	-	30.51%
Since inception [1]	-	24.67%	15.26%	1.48%	25.42%

(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

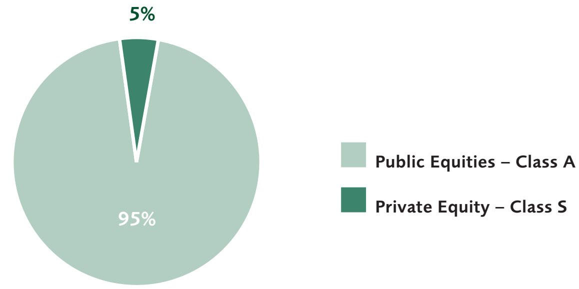
IP Brazil Fund SPC, VBF Segregated Portfolio is an exempted company registered as a segregated portfolio company, incorporated under the provisions of the Companies Law of August 3, 2006 of the Cayman Islands.

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

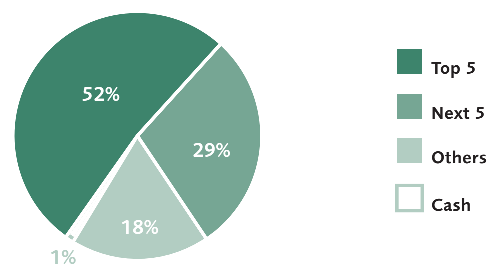
Terms and Conditions

Subscription: On scheduled rounds. Closing day of the first round was March, 2007.
Minimum Initial Investment: US$ 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	14.46	9.53
Price/Book	6.71	6.50
Enterprise Value / EBITDA	6.37	5.18
Return on Equity	22%	24%
Dividend Yield	2.3%	2.8%

* 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

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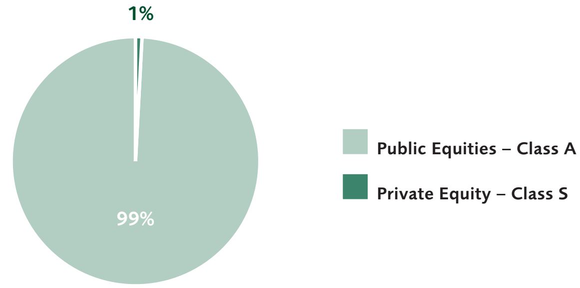
Performance – VBF Class C Portfolio

	VBF Class C % Invested Equities	Performance (US$) VBF Class C	VBF Class S (Casa Show)	Classes C + S [2]
June 08	89.13%	-3.06%	1.92%	-3.00%
May 08	90.20%	15.78%	0.73%	15.59%
April 08	83.53%	5.07%	2.54%	5.04%
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)	-	9.02%	1.56%	8.95%
2007 [1]	-	-3.15%	-	-3.15%
Since inception [1]	-	5.59%	1.56%	5.52%

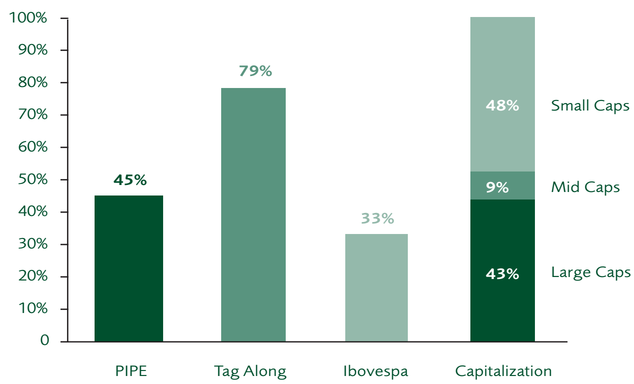
(1) Inception VBF Class C 2007, Nov 09

(2) Inception VBF Class S 2008, Mar

Break-down Public Equities x Private Equity

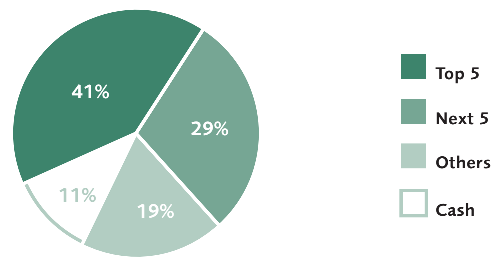


VBF Class C – Equity holding characteristics*



* 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)

VBF Class C – Portfolio Concentration



Portfolio Multiples*	2008E	2009E
Price/Earnings	13.95	8.48
Price/Book	6.77	6.48
Enterprise Value / EBITDA	5.34	4.45
Return on Equity	22%	24%
Dividend Yield	2.4%	3.0%

* Estimate by IP

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.
Minimum Initial Investment: US$ 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.

Terms and Conditions (cont.)

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Miscellaneous

True places are not found on maps. – Herman Melville

The art of being wise is the art of knowing what to overlook. – William James

The answer is usually on the entire story, not a piece of it. – Jim Harrison

Authority gone to one's head is the greatest enemy of truth. – Albert Einstein

It requires a very unusual mind to undertake the analysis of the obvious. – Alfred Whitehead

Tell me how you are searching, and I will tell you what you are looking for. – Ludwig Wittgenstein

A fact is like a sack. It won't stand up if it's empty. To make it stand up, first you have to put in all the reasons and feelings that caused it in the first place. – Luigi Pirandello

The choice of problem is often the most important act of all in analytical work: the idea is to find important problems that can be solved. This requires a certain self-awareness on the part of the researcher. – Edward Tufte

What a man wishes, he will believe. – Demosthenes

There are no geniuses. I should know, because I was told I am one of them. – George Bernard Shaw

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
faleconosco@investidorprofissional.com.br
www.investidorprofissional.com.br